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Algeria... 4.00 Dhs.
Argentina... 1.100 Ptas.
Australia... 1.500 Aus.
Austria... 13.760 Sch.
Belgium... 36.360 Bfr.
Brazil... 1.200 Cr.
Canada... 1.300 Can.
Czechoslovakia... 160.000 Kcs.
Denmark... 8.00 Dkr.
East Germany... 1.000 M.
France... 6.50 F.
Ghana... 1.000 Cedis.
Great Britain... 1.00 £.
Greece... 200 Dr.
Hong Kong... 10.00 HK\$.
India... 15.00 Rs.
Indonesia... 1.500 Rp.
Iran... 1.000 Rials.
Iraq... 1.000 D.D.
Italy... 1.000 Lit.
Japan... 160.00 Yen.
Lebanon... 1.000 L.L.
Libya... 1.000 D.D.
Luxembourg... 366.63 F.
Malaysia... 1.000 M.
Mauritania... 1.000 Ouguias.
Mexico... 16.000 Pesos.
Morocco... 20.00 Dirhams.
Netherlands... 2.200 Gld.
New Zealand... 2.20 NZ\$.
Norway... 4.80 Nkr.
Pakistan... 100.00 Rupees.
Poland... 100.00 Zlotys.
Portugal... 200.00 Escudos.
Romania... 10.000 Lei.
Saudi Arabia... 2.000 Rials.
South Africa... 1.000 Rand.
South Korea... 1.000 Won.
Spain... 166.64 Ptas.
Soviet Union... 1.000 Rubles.
Sweden... 4.80 S.
Switzerland... 7.20 Sfr.
Taiwan... 20.00 N.T.D.
Thailand... 50.00 Baht.
Turkey... 1.000 Liras.
U.S.A. 1.00 \$.
U.R.S.S. 1.000 Rubles.
Yugoslavia... 100.00 D.D.

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Israel to Free 31 Shiites, Says Move Isn't Tied To U.S. Hostages

JERUSALEM — Israel announced Sunday that it would free 31 Lebanese Shiite Muslim detainees. But Defense Minister Yitzhak Rabin said the move was not connected to 40 American hostages held by Shiites in Beirut, and Shiite representatives said they had no plans to respond.

"We are releasing 31 Shiites, and it is in accordance with the policy which was established in the past," an Israeli Army spokesman said.

Israel has been in a quandary over how to respond to the Beirut hostage crisis. Page 2.

which was established in the past, and announced in the past," an Israeli Army spokesman said.

Israel is holding 766 Shiites and other Lebanese transferred in April to Adlat prison from south Lebanon. The release has been demanded in exchange for the freeing of passengers and crew of a hijacked Trans World Airlines plane.

In Washington, President Ronald Reagan said he had ruled out the use of a military operation to gain the hostages' release. The Associated Press reported. He also declined to draw any connection between Israel's promise to free the 31 Shiite prisoners and the hostages.

"On the Israeli decision to release the Shiites, he said: 'I'm not going to comment one way or another on that, because we have avoided the idea of linkage there.' Asked whether he had ruled out a military response to gain the hostages' release, Mr. Reagan answered: 'Yes.'"

In Beirut, a spokesman for the Shiite Amal militia said the release of the 31 prisoners would not change the hijackers' plans.

"So far there are no plans to release any of the hostages in return," the spokesman said.

(Nabih Berri, leader of Amal, said: "I want the 700 plus," The Associated Press reported. Mr. Berri was speaking in an interview in Beirut with the CBS television network.)

The 37 passengers and three crew members are being held in unknown locations in Beirut under the protection of Mr. Berri, the Lebanese justice minister who heads Amal.

"We had promised to release all hostages taken on the plane in return for the release of the Shiite detainees," the militia spokesman said. "This number is insufficient compared with that of the detainees."

The Israeli announcement, on the 10th day of a crisis that began when a Boeing 721 was hijacked over Greece on June 14, came amid the first signs of movement in the hostage crisis since the middle of last week. There were reports earlier in Beirut of a plan to resolve the problem and of Swiss contacts with the Shiites and Israeli and American officials.

Israeli leaders have said the detainees eventually would be freed depending on the level of guerrilla activity inside Israel's self-declared security zone in south Lebanon.

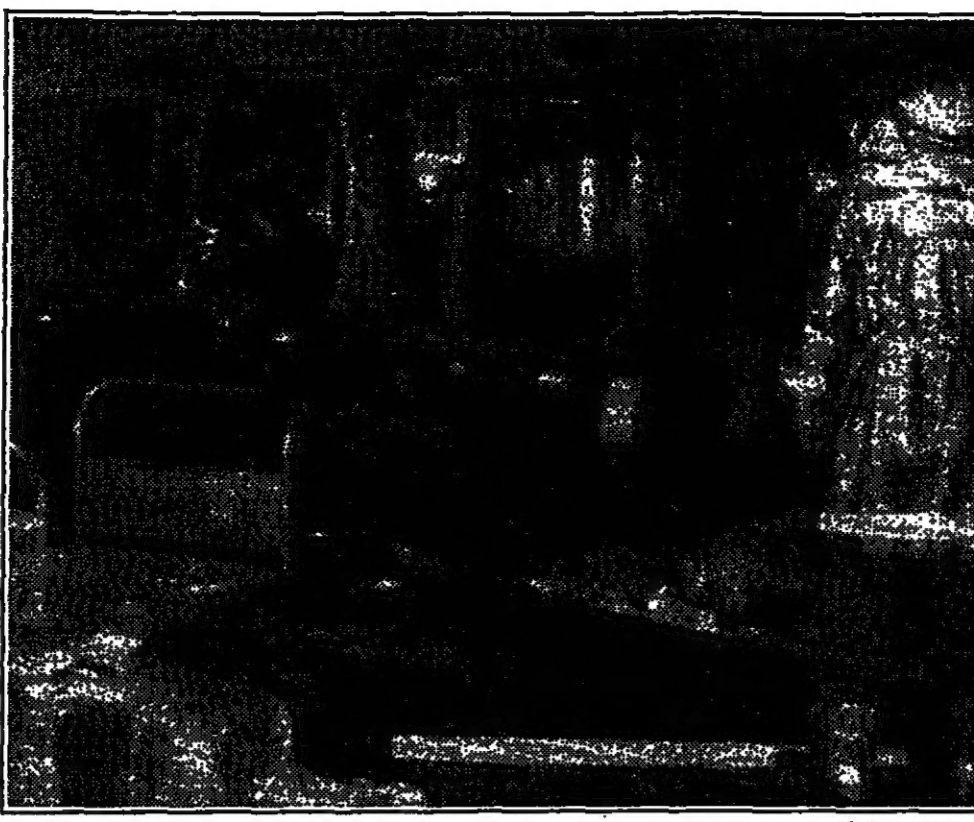
The latest release of Shiites "is not linked whatsoever to the problem of the U.S. and Israel and the whole world are facing today with the hostages in Beirut," Mr. Rabin said in an interview with CBS.

Mr. Rabin said the United States had not asked Israel to free the men and that they were being released after they appealed against their detention to a special committee headed by an Israeli district court judge.

None of the prisoners has been charged with any crime and the International Committee of the Red Cross has called their transfer to Israel illegal.

In Washington, Secretary of State George P. Shultz also played down the Israeli move, saying it

(Continued on Page 2, Col. 5)



Firemen look at damage at Tokyo International Airport in Narita after a suitcase taken off a Canadian Pacific plane exploded, killing two baggage handlers and injuring four persons.

Explosion at Tokyo Airport Kills 2

Washington Post Service

TOKYO — A powerful bomb exploded Sunday at Tokyo's international airport in baggage taken off a Canadian Pacific Airlines plane that had begun its flight in Toronto, the same city from which an Air India airliner took off before crashing off Ireland, the apparent victim of a bomb.

The suitcase bomb at Tokyo's airport killed two baggage handlers and injured four persons when it

exploded in a work room about 45 minutes after Canadian Pacific Flight 003, a Boeing 747, had landed.

The plane had begun its flight at Toronto, stopped at Vancouver, and then took off Saturday afternoon for Tokyo, carrying 374 passengers, Japanese police said.

The airliner arrived about 15 minutes ahead of schedule, police reported. There was speculation that the bomb had been intended to

explode during the flight but had failed to go off on schedule.

Aviation specialists in Tokyo also speculated that the Canadian Pacific and Air India incidents were the work of the same person or persons. However, investigators have released no evidence directly establishing such a connection.

A Canadian Pacific official here said that company rules did not require the search of baggage that is carried in the cargo hold.

329 Are Feared Dead In Indian Jet's Crash At Sea; Blast Suspected

The Associated Press

SHANNON, Ireland — An Air India jumbo jet crashed into the Atlantic Ocean south of Ireland on Sunday, and all 329 people aboard were feared dead. Indian officials said they suspected an explosion had caused one of the worst disasters in aviation history.

Irish officials said the Boeing 747 had vanished from their radar screens without sending a call for help. Search aircraft and boats sent to the crash site found debris and bodies strewn across several miles of ocean.

In New Delhi, India's minister of state for civil aviation, Ashok Gehlot, said, "Explosion is considered a possibility in view of the fact that the wreckage is spread over a wide area." He added, "Sabotage is a distinct possibility."

Francis Dagama, a regional director for Air India, said in London that the carrier had received "over the past few months threats of hijack, etc. from Indian groups, all political." He did not cite any specific group.

But a spokesman for the Canadian Foreign Ministry, Reynold Doiron, said the department had no confirmation that a bomb was involved. "As far as we know, no claim whatsoever has been made by any individuals or groups," he said.

Flight 182 was the first commercial jet to crash on the trans-Atlantic route, according to the International Air Transport Association in



Francis Dagama, an Air India official in London, said the airline received threats "over the past months."

Geneva. An Air India statement released in New York said there were 307 passengers and 22 crew members aboard.

Derek Menezes, Air India's manager in Montreal, said 278 passengers were Canadians. In New Delhi, Air India officials said that many of the Canadian citizens were of Indian origin, and that the passengers included 77 children and two infants.

Flight 182 originated in Toronto, released in New York said there were 307 passengers and 22 crew members aboard.

By mid-afternoon, 57 bodies had been pulled from the sea and were being flown to Cork Airport, Irish officials said.

Debris, in chunks no bigger than 10 feet square, was strewn in an oval several miles wide, according to a British rescue helicopter pilot.

(Continued on Page 2, Col. 7)

Experts Criticize Airport Security in Athens, Beirut, Third World Nations

By Constance Rosenblum

New York Times Service

NEW YORK — Airport security varies widely around the world, but a review of procedures shows that in general the methods practiced in developing countries tend to be lax while those in North America and the Communist bloc tend to be stringent.

In Europe, the review shows, the major airports usually follow a high standard of security. A notable exception is Athens, where hijackers on June 14 seized a TWA plane, some of whose passengers are still held hostage in Beirut.

The review was conducted by correspondents for The New York Times and supplemented by interviews with State Department officials and representatives of the International Air Transport Association and the International Federation of Airline Pilots Association. Officials of the Federal Aviation Administration and the Central Intelligence Agency declined to be interviewed.

In arriving at an assessment of what is and is not a safe airport, the experts stressed that the quality of the equipment

in use is not always the determining factor. Equally important, they noted, are the training and attentiveness of the personnel and the efficiency with which they conduct security checks and use such things as hijacker profiles to recognize security threats.

Referring often to Athens, they also emphasized the importance of airport design, particularly the way passengers are routed through a building and how tightly access to airstrips is controlled.

The review showed that safety procedures lagged in much of Latin America, particularly Rio de Janeiro, Mexico City, and Lima, Peru, as well as in parts of Africa and the Middle East.

Among airports receiving high marks for safety were those in Tokyo, Tel Aviv, Zurich, London, and most of Western Europe. Airports in the United States and Canada are also considered highly secure.

Some of the most rigorous airport security is in the Soviet Union, China, Vietnam and Poland. Security was also described as high in Bangkok, Singapore, and Kuala Lumpur, but the emphasis was

seen as focusing on preventing drug smuggling rather than hijackings.

In the Middle East, Beirut is considered a major and persistent trouble spot, while Cairo and Amman, Jordan, are regarded as unusually stringent in security.

In general, representatives from the pilots and airlines organizations agreed with the findings of the review, particularly the assessment of Beirut and Athens.

"There are a very small handful of airports, perhaps half a dozen, that are of serious concern for us worldwide, not all of them in the Middle East," said Harry Atterton, director of public relations for the International Air Transport Association.

[Evangelos Kouloumbis, a Greek government spokesman, said last week in an

interview with news agencies that the treatment the Athens airport was getting now was unjust. He said that among 211 hijackers around the world from 1978 to 1984, two had been on flights leaving Greece while 43 had started in the rest of Europe.]

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Mr. Atterton, whose organization is the trade group for airlines that fly international routes, declined to identify specific problem airports.

But he said there were "one or two in Africa and in South America," adding that airports near or linked by air routes to known trouble spots were in greatest danger.

As for airports with tight security, Mr. Atterton singled out Tokyo, which he described as "incredibly thorough," and

Tel Aviv, which he said had by necessity become expert in this area.

Rodney Wallis, the international association's security chief, said that in such regions as Southeast Asia, preventing hijacking must compete with efforts to control drug smuggling.

"The potential exists for attention to smuggling to detract from attention to preventing hijackings," he said. "We mustn't allow that to happen."

The association regularly receives reports from its member airlines on the safety of airports. When problems are indicated, Mr. Wallis said, the organization recommends improvements to the appropriate airport or government. Then, if improvements are not forthcoming, individual airlines might take steps to strengthen their own security, as was the case with TWA at Athens.

Erwin von den Steinen, of the department's Office of Aviation, praised European airports as having "a fairly consistent level of concern."

But he described Athens as having been "a trouble spot for years" and characterized Rome as having had sporadic

problems related to the ease with which people can get aboard an aircraft.

According to Captain Laurie Taylor, executive secretary of the International Federation of Airline Pilots Association, airport security is better in those countries in which government and industry cooperate on airport safety, such as the United States, France and Britain.

In parts of Latin America and Asia, where the level of screening may depend on whether a flight is international or regional, the degree of security varies enormously, he said. He specifically said of the airports in Colombia that there was "just virtually no security at all."

"A year or two ago they had three hijackings in one day," he said.

Following are details from the review of security at major airports:

Europe

LONDON — Heathrow Airport is consistently cited by travelers and officials as one of the most security conscious in the world. Though British officials

(Continued on Page 5, Col. 1)

Iran Adopts Defensive War Tactics

United Press International

TEHRAN — Ayatollah Ruhollah Khomeini has ordered his forces in the Gulf war with Iraq to wage a defensive war, in a tactical switch from Iran's former "human wave" attacks across the front lines, according to an Iranian official.

Ali Reza Afshar, chief of staff of Iran's Revolutionary Guards, said "Sunday that Ayatollah Khomeini had 'issued an overall order for a defensive jihad.'"

Mr. Afshar said the paramilitary Revolutionary Guards were using special techniques similar to guerrilla warfare.

Observers said Iranian attacks in the last two weeks seem to have been rapid, small-scale operations, sometimes capturing territory or destroying a few Iraqi military outposts before returning to base.

Five such attacks have been waged recently in the southern and central sectors of the front line between the two countries.

The new technique varies greatly from the large-scale offensives launched since March 1982, when thousands of troops were sent in "human waves" across enemy lines, resulting in heavy casualties.

Mr. Afshar's disclosure was the second indication in the last week that Iran may be easing its hard-line stance in prosecuting the five-year-old Gulf war.

Last Wednesday, Iran proposed that an international court be created to resolve the war. The proposal did not mention the usual Iranian condition for a settlement — the removal of Iraq's president, Saddam Hussein.

5 Injured In Explosion

Five persons were injured Saturday when a car bomb exploded in Tehran, according to IRNA, the

(Continued on Page 2, Col. 7)



Crew holds a news conference on Discovery. Front from left, John O. Creighton, Shannon W. Lucid and Daniel C. Brandenstein; rear, Prince Sultan Salman al-Saud, Steven R. Nagel, John M. Fabian and Patrick Baudry.

Discovery Retrieves Satellite, Prepares to Land

By Lee Dyc

Los Angeles Times Service

HOUSTON — The space shuttle Discovery retrieved an observatory satellite from orbit, accomplishing the final major operation of its flight, and the two non-U.S. astronauts in the crew took their countrymen on televised tours of their living and working areas.

Prince Sultan Salman al-Saud of Saudi Arabia described the view from a hatch on Saturday and said, "It only shows God's might in creating all of this."

The prince told his countrymen, "When I do my prayers, I'm not able to do a complete Sujood, because it may cause sickness." The Sujood is one of four Moslem prayer positions, in which forehead and nose are touched to the floor.

The prince said his first two days in space last Monday and Tuesday "were not easy

because, like half of all astronauts, he had difficulty adjusting to weightlessness.

Patrick Baudry, a French test pilot, showed French audiences Discovery's kitchen and the special ration, including canned lobster, that he took into space to supplement the bland fare that U.S. astronauts eat.

In Houston, Larry Bourgeois, a flight director at mission control, said Discovery's crew had "completed 100 percent of our major objectives" for the mission. These included the launching of three communications satellites, all of which were working properly.

The only important error of the flight came Thursday, when the shuttle was in the wrong position as it passed over a Hawaiian laser tracking station for an experiment that was part of U.S. research for a space-based missile defense.

The experiment was repeated Friday and

the results were so satisfactory that the U.S. Air Force passed up an opportunity to do it again Saturday.

The main operations of the flight ended Saturday with the retrieval of Spartan, a compact X-ray observatory that Discovery had dropped off Thursday 220 miles (354 kilometers) above Earth.

The self-contained unit, about the size of a telephone booth, recorded data from several instruments in an effort to learn more about the violent activity at the center of clusters of galaxies, and possibly about the black hole that is believed to be at the center of the Milky Way. A black hole is an extremely dense object with gravity so powerful that even light cannot escape its gravity.

Discovery, commanded by Daniel C. Brandenstein, 42, spent most of Sunday getting ready for Monday's landing at Edwards Air Force Base in California. The landing is set for 6:14 A.M.

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West Germany to Support France On Technology Plan at EC Summit

By Henry Tanner

International Herald Tribune

BONN — The government of Chancellor Helmut Kohl, ending several months of hesitation, has decided to take a leading role in favor of Eureka, the French-sponsored project for European technological cooperation, at the European summit meeting this week in Milan, according to West German officials.

The officials said Mr. Kohl would urge the European Community partners to seek agreements on specific projects in such fields as high-speed computers and microelectronics. This would allow EC leaders to give instructions to finance and research ministers to take initial steps.

West Germany is ready to set aside significant amounts of funds if concrete agreement emerges in Milan, the officials indicated. The Milan summit meeting will take place Friday and Saturday.

The government decision in favor of Eureka, made Friday at a cabinet meeting, came shortly after a West German delegation returned from talks in the United States on American research into missile defenses. The delegation was headed by Horst Teltschik, Mr. Kohl's chief adviser on foreign and security affairs.

The goal of the delegation, which included representatives of high-technology industries as well as government experts, was to explore the possibilities of West German government participation in the U.S. research. The U.S. administration has named the program the Strategic Defense Initiative, or SDI.

Mr. Teltschik submitted a preliminary report to the government Wednesday. Leading West German newspapers reported that the findings of his delegation had been inconclusive and disappointing.

Mr. Teltschik and the experts found that U.S. officials wanted

support from European governments for SDI, but that they had little interest in any other European government involvement, according to the reports.

The Americans, the reports said, had only vague answers to what was a key question for many Europeans, the transfer back to Europe of technological expertise gained through collaboration in SDI.

The reports about Mr. Teltschik's impressions have not been officially denied.

On the contrary, the government appears to be encouraging the impression that it is no longer considering SDI, and indeed that it has decided to help fund European efforts in weapons development as

well as in the peaceful high-technology objectives of Eureka.

It has been taken for granted, however, that several leading West German industrial companies would participate in SDI research as well as in Eureka or other European projects.

An emphatic West German endorsement of Eureka would be a victory for Foreign Minister Hans-Dietrich Genscher, who had supported the plan from the beginning and had warned against the strategic and technological implications of SDI.

Mr. Teltschik, the leading figure on foreign policy in Mr. Kohl's administration, had been regarded, as one of the chief advocates of SDI before his return from the United States.

Officials stressed over the weekend that the government now was united in its stand on Eureka.

The French, while continuing to stress that Eureka was never meant as a substitute for SDI, are clearly pleased that government interest in Europe has shifted to their proposal.

The external relations minister, Roland Dumas, put the Eureka plan forward in April, clearly before the project had been fully elaborated. It is now conceded in France that the reason for the hurry was to prevent SDI from being the only major project for international technological cooperation.

The French tactic seems to have worked to the extent that Eureka provided an indispensable alternative for Mr. Genscher and others in European governments, who doubted the wisdom of SDI.

In spite of repeated declarations that Eureka was meant as a purely civilian research program, it has become clear that West German and French officials also are eager to move forward, probably separately, in industrial, and research cooperation for the development of military weapons.

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Israel Has Been in a Quandary on Response to the Hijacking

By Thomas L. Friedman
New York Times Service

JERUSALEM — Israel has been in a quandary over how to respond in the Beirut hostage crisis. Israeli experts on terrorism believe it is an indirect result of the government's decision last month to trade 1,150 prisoners, most of them Palestinians, for three Israeli prisoners of war.

The experts say that by giving in last month to the demands of a Palestinian guerrilla leader, Ahmed Jibril, a move widely viewed here as a blunder, Israel helped to create the atmosphere in which the Beirut hijacking took place.

Now, the experts contend, Israel has been trying to compensate for this by refusing to concede to the hijackers' demands for the release of 766 detainees unless the United States formally appeals to the Israeli government to, in effect, "cave in" to the hijackers' demands.

This has created a great deal of strain between Jerusalem and Washington, and officials here acknowledge that coordination between the two governments has been inconsistent and generally mismanaged by both sides.

The result, said Zeev Schiff, the military editor of the daily newspaper Ha'aretz, is that the hijackers have already won a major victory: Israel and the United States, instead of fighting the terrorists jointly, have been at odds with each other.

The connection between the Beirut hijacking and the Israeli-Palestinian prisoner exchange last month is multifaceted, the experts say.

To begin with, said Ariel Merari, a leading Israeli

expert on terrorism, there is the price the hijackers have demanded.

This is not the first time Shiites have hijacked an airplane, he noted, but this is the first time they have made demands on Israel that are so enormous. The hijackers requested not only the return of 766 Lebanese and Palestinians held in an Israeli prison, but also

NEWS ANALYSIS

abandonment of Israel's effort to maintain a "security zone" in southern Lebanon, as well as an end to Israeli support for the largely Christian militia called the South Lebanon Army.

"Israel has proven that it is willing to pay under pressure a price that previously would have seemed incredible," Mr. Merari said of the Palestinian-Israeli exchange. "Now, even if you just take Nabih Berri's demands for the return of the 766, it is still a much higher price than ever demanded by the Shiites. Not only can one see a link between the price demanded by the Shiites and the previous prisoner exchange for the 1,150, but also the expectation for their fulfillment."

If Israel freed 1,150 Palestinian and other prisoners for three Israelis, said Mr. Merari, then "Berri can at least expect to get back 766 of his men whom Israel was planning to release anyway for nothing. Berri is saying to us and to the American public: 'Surely if Israel was ready to release so many Palestinians it could release a few number of our guys to save the Americans.'"

Added Mr. Schiff: "Most people feel that even if we had no other choice, by releasing the 1,150 we crossed a certain threshold. Although many people here still

won't admit it, we lost a certain standing in the international community. The hijackers know this."

However, Prime Minister Shimon Peres maintained Friday that the price being demanded by the Shiite hijackers cannot be linked with the Palestinian-Israeli exchange.

"This is the eighth hijacking perpetrated by the Shiites," said Mr. Peres. "The seven previous hijackings occurred before the release of the convicts from our prisons. Did this prevent the hijacking of planes? He added that the planning for this hijacking, 'so far as we know,' took place 'before we released the prisoners from our jails, so there is no connection between them.'"

Whether there is a direct connection or not, the Israeli public and leadership clearly believe that there is at least the appearance of a possible connection, and this has very much influenced their handling of the crisis, experts here say.

"The public repercussions of the release of the 1,150 were so unpleasant for the government that it has turned 180 degrees," said Mr. Merari. "Now it is posing as the tough guy, saying we are not always weak, those were special circumstances."

This attitude appears to be particularly strong in Defense Minister Yitzhak Rabin, who is responsible for Israel's dealings in the hostage affair. Mr. Rabin was the focus of much of the criticism over the release of the 1,150, even though the entire cabinet voted for it and the unfavorable negotiating conditions had been the work of the previous Likud government, led by Yitzhak Shamir.

Mr. Rabin, who as prime minister in 1976 ordered Israel's daring strike to free hijacked passengers at

Entebbe Airport in Uganda, has clearly been stung by having been cast in news reports as the one who gave in on releasing the 1,150.

"Rabin was trapped by the decision of the Shamir cabinet to begin the negotiations under certain very bad conditions," said Mr. Schiff. "He knows that as a result he lost the special status he had as the man who initiated Entebbe. The hero of Entebbe was trapped and wants to go back to the old days."

"As a result he has become super sensitive about this whole issue, saying that the terrorists will not push us around and that if the Americans want us to make concessions they will have to come to us and say so out loud. In a sense Rabin is trying to return to the position he had before he had to yield the 1,150," Mr. Schiff said.

Some Israeli analysts believe, however, that Israel has chosen the wrong issue on which to try to win back its reputation for not giving in to terrorism. Rather than making life difficult for the Americans, they contend, Israel should be looking for every chance to coordinate with Washington to resolve this crisis in a way that will minimize the gain for the hijackers and maximize the credibility of American and Israeli counterterrorism policies, as well as of their alliance.

"I don't think it is very smart to make the United States have to beg or tell it to go handle its own problems," said an expert on terror. "This situation is not worth jeopardizing American-Israeli relations over, because our two countries are going to have to stand shoulder-to-shoulder again many times in the future. The next time, it may be us who needs the Americans."

WORLD BRIEFS

Greece Reasserts Plan to Close Bases

ATHENS (AP) — Prime Minister Andreas Papandreu has announced to parliament that his government is determined to have four U.S. military bases removed from Greece by the end of 1985.

He was presenting his government's program Saturday to the 300-member parliament following the June 2 election victory of his Panhellenic Socialist Movement. His government signed a renewable five-year agreement on the bases with the United States in September 1983. The agreement allows the United States to maintain four military bases in Greece and about 20 smaller installations. It can be terminated by either side.

Mr. Papandreu also reasserted his intention to keep Greece out of North Atlantic Treaty Organization military exercises. He said the alliance has continued to ignore Greece's problems with Turkey, also a NATO member.

Cossiga Backed for Italian President

ROME (AP) — Leaders of the dominant Christian Democratic Party announced Sunday that they were unanimously proposing for president of Italy Francesco Cossiga, a former prime minister and now Senate president.

The recommendation by the party's ruling council was expected to be approved later in the day when the 365 "great electors" from the Christian Democrats voted by secret ballot on the party's nomination. Italy's president is elected to a seven-year term by 1,011 "great electors," members of the Senate, Chamber of Deputies and representatives from the country's 20 regions. President Sandro Pertini, 88, a Socialist, said he did not want to serve another term.

Leader of Canary Islands Resigns

LAS PALMAS, Canary Islands (Reuters) — The head of the Socialist government of the Canary Islands, a region of Spain, has resigned after opposition groups rejected the terms of Spain's entry into the European Community, officials said Sunday.

They said Jerónimo Saavedra Acevedo, president of the regional government, resigned Saturday after the Canary Islands parliament voted, 30-27, against the accession treaty signed in Madrid on June 12, on the ground that it would damage the islands' economy.

Thousands of farmers in the islands have protested in recent months at the conditions negotiated for the islands, which preserve their free-port status and other fiscal privileges but treat their rich market produce as if it came from a non-EC country.

For the Record

An East European refugee, believed to be a Czechoslovak citizen, was shot and killed Sunday by Yugoslav border guards as he tried to cross the Yugoslav-Austrian border, police said in Graz, Austria. (AP)

Turkish Cypriots voted Sunday in elections for a 50-member parliament in the northern third of Cyprus. (AP)

Pope John Paul beatified a German monk, Peter Friedhofen, and an Italian monk, Benedetto Menai, Sunday at a ceremony in St. Peter's Basilica. (Reuters)

The Parti Québécois on Sunday set Sept. 29 as the date for an election to choose a successor to Premier René Lévesque, who has announced his resignation as head of Quebec's ruling party. (Reuters)

329 Feared Dead in Jet Crash

(Continued from Page 1)
A oil slick leaked through the wreckage.

Joe Kerin, chief controller of Ireland's Marine Rescue Coordination Center, said that the jet's flight data recorder, or "black box," had been located. He said it was under 2,200 feet (668 meters) of water, but there "shouldn't be any problem" in recovering it.

The flight was cruising normally at 31,000 feet (9,430 meters) and was one hour, 40 minutes away from London's Heathrow Airport when air controllers in Shannon lost sight of it on radar. The local time was 8:13 A.M.

Minutes later, two jets nearby picked up an electronic distress signal of the type that is triggered automatically when a plane hits water.

High O'Connor, spokesman for the Shannon regional traffic control center, said that Flight 182 had checked in six minutes earlier and was given clearance to proceed to London. "There was no indication that anything was wrong," he said. Then, Mr. O'Connor said, "He just vanished off the scope. Immediately he was called and there was no reply."

Pilots of two other jetliners above the Air India plane were told to look out their windows. But neither could see any sign of the plane, controllers said.

The Boeing 747, considered one of the safest planes, can cruise with just one engine, said David Learmonth, air transport editor of Flight International Magazine. At

31,000 feet, it would be able to glide for a half-hour before crashing, he said in a British Broadcasting Corp. interview.

He told the BBC that principal evidence for an explosion having caused the crash was the fact that the pilot, H. S. Narendran, 57, had not radioed a mayday call.

The pilot can do that either by voice or with a button under his thumb on the control column, even if all generator power is out, Mr. Learmonth said.

"A bomb happens to answer the questions," he said. "It answers why the crew didn't have time to radio a distress signal. It answers the question why the wreckage is spread so widely because the aircraft obviously broke up before it hit the sea."

Sunday's crash was the third deadliest air disaster.

The worst crash was in March 1977, when two 747s collided on the runway of the airport at Tenerife on Spain's Canary Islands, killing 582 people. In March 1974, 346 people were killed when a Turkish DC-10 crashed northeast of Paris.

Man Is Hurt in Vatican Jump

VATICAN CITY — An Italian man stripped off his clothes Friday and threw himself from the papal altar in St. Peter's Basilica to the shrine four meters (13 feet) below, said Saturday. The man, Antonio Grippo, 37, was taken to a hospital, where he said: "I wanted to fly."

It was carrying a load of general cargo from Europe when it was taken to an unknown Iranian port on the Gulf, shipping sources in Kuwait reported.

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Shiite Forces End Siege Of 2 Palestinian Camps

Compiled by Our Staff From Dispatches

BEIRUT — Shiite Moslem forces lifted their siege of two Palestinian refugee camps over the weekend after fighting to drive out their defenders for more than a month.

Members of the Shiite Amal militia ended Sunday their blockade of West Beirut's Chatila camp. A siege on the suburban camp of Borge Barajni was lifted Saturday.

A Syrian-sponsored truce announced last week halted hostilities at the two camps. Nearly 600 people have died and more than 2,500 have been wounded since the Amal militia attacked the camps of Chatila, Borge Barajni and Sabra on May 19.

The militia, backed by the mostly Shiite Moslem troops of the Lebanese Army's 6th Brigade, had besieged the camps in an effort to prevent the Palestine Liberation Organization from rebuilding the power base it lost when Israel invaded Lebanon in 1982.

Buildings cleared the main street in Chatila of sandbagged positions and earth barricades Sunday, and witnesses said three truckloads of food donated by the UN Relief and Works Agency were moved into the camp.

The operation was supervised by representatives of Palestinian factions, the Amal and the Druze Progressive Socialist Party militias and two Syrian observers.

The scene was one of utter destruction. In the maze of alleyways and low concrete buildings that make up the camps, entire streets were wrecked and spent cartridges, ammunition clips and shrapnel littered the ground.

In other developments, Israeli planes drew anti-aircraft ground fire on Sunday as they flew reconnaissance runs over eastern Lebanon, but no hits were reported, according to radio reports.

In southern Lebanon, members of the Israeli-backed South Lebanon Army militia shelled two Shiite Moslem villages in the security zone established during the Israeli withdrawal and clashed heavily with Moslem forces east of Sidon, security sources said.

Israeli troops ringed the Lebanese border village of el-Tirah during the fighting and ordered residents to hand over 15 men suspected of rocket attacks on the South Lebanon Army, they added.

(AP, Reuters)



Nepalese police dressed in riot gear patrolling the main street of Kathmandu after the bomb explosions.

Nepal Officials Suspect a 'Foreign Hand' in Bombings

The Associated Press

KATMANDU, Nepal — Authorities investigating bomb explosions that killed seven persons and injured 27 last week in Kathmandu and three towns along the border with India.

Among those arrested was an Indian, Rajinder Singh, who police said was stopped in the border town of Bhadrachalpur while carrying three bombs, fuses and batteries. Another man, a Nepalese identified as Niraj Kumar Gupta, was arrested near the border town of Janakpur while carrying 56 explosive devices. Police said he confessed to being a courier for an Indian in Uttar Pradesh state.

Authorities said Sunday that 130 persons had been detained for interrogation about the blasts that killed seven persons and injured 27 last week in Kathmandu and three towns along the border with India.

Indian intelligence agencies were investigating whether Sikh terrorists helped Nepalese political extremists in making the explosives and planning the coordinated bombings, according to The Hindu newspaper of Madras, India.

A group calling itself the Janwadi Morcha, or Revolutionary Front, claimed responsibility for the attacks in a statement delivered to an Indian newspaper, The Telegraph. The statement said the organization seeks to overthrow the monarchy and establish a democratic republic in Nepal.

Younger Chinese Named To Shanghai, Army Jobs

By John F. Burns

New York Times Service

BEIJING — Deng Xiaoping's campaign to rejuvenate China's bureaucracy has been stepped up with the naming of a new Shanghai party chief and the promotion of three 42-year-old officers to top military posts.

The change in Shanghai, the country's largest city and its industrial and commercial center, appeared to stem partly from dissatisfaction in Beijing with the pace at which the city has put into effect the market-oriented policies at the heart of Mr. Deng's program.

The new party secretary in the city, Rui Xingwen, was previously minister of urban and rural construction and environmental protection, which has played a major role in the large building program that has accompanied the economic growth of recent years. He replaces Chen Guodong.

Other reports confirmed the appointment of a new party secretary, Chen Huiguang, 46, who is an engineer, in the Guangxi-Zhuang Autonomous Region bordering Vietnam. Changes in top posts had previously been announced for the provinces of Sichuan, Shandong, Jilin, Guizhou, Hebei, Jiangxi and Tibet. Most of the new appointees are in their 40s and 50s.

The military appointments involve positions on the general staff in Beijing. At 42, the new generals are at least 20 years younger than

the men they replace. The announcement noted that in addition to their youth, those promoted were military academy graduates.

He Qizong, becomes a deputy chief of the general staff, Zhou Wenyan becomes a deputy director of the general political department, and Zong Shunliu becomes a deputy director of the logistics department.

The government announced last week the appointment of nine officials to head ministries that play a crucial role in Mr. Deng's modernization drive. At the same time, he has been pressing ahead with a shakeout of regional military commanders and top Communist Party and government officials in the provinces.

The latest changes are part of a process that began at least three years ago at lower levels of the bureaucracy. Mr. Deng, 80, insisted that the retention of power at all levels by aging, poorly educated officials who began their careers in the revolutionary period was a major obstacle to economic and social change.

He started a drive to ease these officials aside, some of them into retirement and others into advisory positions. By the end of last year, about 900,000 party and government officials had been sent into compulsory retirement, and a process to weed out the armed forces' officer corps had begun.

Israel to Free 31 Shiites, Denies Link to U.S. Hostages

(Continued from Page 1)

would not affect the American hostages.

Negotiations on the release of the Americans had broken down over the issue of the 766 prisoners held in Israel since April.

The Israeli government had said it long planned to release the prisoners but would not do so in exchange for the American hostages without a direct request from the White House.

The United States has said any request would be a capitulation to terrorism.

An International Red Cross spokesman in Beirut said he ex-

pected the prisoners to be freed Monday on the coast road between the Israeli frontier and the south Lebanese port city of Tyre.

Amal says Israel originally promised to free all the prisoners by the time its army left south Lebanon. It announced completion of the pullout earlier this month, but 766 of 1,200 prisoners earlier deported to Israel were not freed.

Of the 1,200 detainees brought to Atlit, Israel released 30 on April 11, 37 on April 18, 150 on May 20 and 249 on May 23.

Mr. Rabin's announcement came amid signs of movement in the hostage crisis, including a report of a four-point plan for a solution and Swiss contacts with Israel to brief it on talks Swiss officials have had with Mr. Berri.

In his interview, Mr. Rabin would not say whether additional prisoners would be released, but said Israel would not undermine the U.S. policy of "standing firm against terrorism."

"If Israel would come out and do it voluntarily we practically would undermine the American policy of standing firm," he said. "No one

would believe that Israel has done it voluntarily without being asked by the U.S. to do it."

The State Department earlier Sunday described news reports from Lebanon that the U.S. ambassador in Beirut had forwarded to Washington a four-point proposal aimed at breaking the deadlock were "purely fictitious."

The respected Beirut daily An Nahar said the plan included "the release of all U.S. hostages, followed by a Washington statement condemning all violations of international law, including of Lebanese prisoners in Israel."

An Nahar did not say who drafted the proposals, which it said also called for the International Red Cross to begin talks for the release of the Lebanese prisoners in Israel a week after the hostages were released.

Lebanon would impose strict security at Beirut International Airport, reinforce army deployment there and hold talks with militias aimed at preventing its being used for hijacks, the paper said. A senior official of Amal, mean-

while, said the militia had accepted a Swiss offer to help end the drama.

Switzerland said Saturday that Mr. Berri had told the Swiss foreign minister, Pierre Aubert, that he would be ready to take the hostages to Switzerland. But the senior Amal official, Ghassan Siblani, declined to confirm Sunday that Amal was ready to move them to a Swiss territory.

Former Leaders Back U.S.

Former President Gerald Ford and four other former Western leaders voiced support Saturday for the U.S. refusal to bend to the demands of guerrillas holding the hostages, United Press International reported from Colorado.

Mr. Ford, the chairman of a gathering of political and business leaders for discussion of international events, joined former President Valéry Giscard d'Estaing of France, former Chancellor Helmut Schmidt of West Germany and former Prime Ministers James Callaghan of Britain and Malcolm Fraser of Australia in a statement supporting President Reagan.

SPAIN, AN ENTIRE COUNTRY BEHIND THE TELEPHONE

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AMERICAN TOPICS

Bishops' Document
Is No Dead Letter

The Roman Catholic Bishops' pastoral letter on the American economy, whose first draft released last November was criticized by conservative Catholic laymen as an attack on free enterprise, is still an issue. The letter, which proposes more help for the poor, including a revamped welfare system, was discussed at the national bishops' conference in Collegeville, Minnesota, this month. The New York Times reports.

Cardinal John J. O'Connor of New York, himself a favorite of conservatives, said he wished the business community could have attended. "They'd be relieved to see the integrity of the process," he said.

A final version of "The Pastoral Letter on Catholic Social Teaching and the U.S. Economy" is expected to be voted on next year.

Baltimore is taking its "squeeze kids" who offer unsolicited windshield washings at traffic lights, off the streets and putting them in "squeeze stations" set up in vacant lots. In Wilmington, Delaware, meanwhile, "gas lads" offer to pump gasoline for patrons of self-service stations. Winter is the most profitable time, when motorists like to remain in their cars. But some people are concerned about the hazards of spilled gasoline.

Notes About People

When Jason Roberts Jr. first played the part of Hickey, the fishy salesman in Eugene



Jason Roberts Jr.

O'Neill's "The Iceman Cometh," off-Broadway in 1956, he was 33 but was made up to look older. He will play the role again in a Washington revival in August. Now 62, the actor said, "I'm a little old for it, but I think if I tuck in my chin, I can get away with it."

Sammy Davis Jr., the entertainer, says that his nearly dying from alcohol-related liver disease two years ago inspired him to "give up booze." Now he is sponsoring the Sammy Davis Jr. National Liver Institute at the University of Medicine and Dentistry of New Jersey.

Todd Duncan, the original Piggy in the 1955 premiere of George Gershwin's folk opera "Porgy and Bess" and now a prominent Washington music teacher, has been named the first winner of the Paul Hesse Award, named for the music critic emeritus of The Washington Post.

—Compiled by
ARTHUR FIGURE

Short Takes

Arkansas stocked muskrats decades ago for their valuable pelts. In the 1970s, the market faded and the muskrats proliferated, burrowing into rice paddy dikes, which drained the fields. So alligators were stocked to eat the muskrats. Now the alligator population is soaring. "I'll tell you what concerns me," said Howard Hammons, a rice farmer in Stuttgart. "What are they going to bring in to eat the alligators?"

Colleges and universities are turning away from the "grade inflation" brought on in the 1960s by student demonstrations and by young men facing the draft who pressed for better grades so they could stay in school and avoid going to Vietnam. According to a survey of 1,600 institutions by Washington State University, "we're heading back to pre-1965 grading standards."

Atlantic City keeps opening new casino hotels, although the 10 already in business report a loss of \$137,000 for the first quarter of this year on revenues of \$306 million. This compares to a first-quarter profit last year of \$24.9 million on revenues of \$489 million. Expanding beyond the day-trip market of people living within 150 miles (about 240 kilometers) is difficult because the city lacks scheduled air service and an adequate convention center.

Soviet Embassy in Mexico Called 'Safe Haven' for Spying on U.S.

By Joel Binkley
and Robert Lindsey
New York Times Service

MEXICO CITY — U.S. officials say the Soviet Embassy here is increasingly being used to mount espionage operations against the United States and that it has become a major conduit for the illegal diversion of advanced technology to the Communist world.

Soviet intelligence officers "in essence have a safe haven here," John Gavin, the U.S. ambassador to Mexico, said last week. A senior Mexican government official acknowledged that there were espionage operations in Mexico City. But he defended Mexico's policy of permitting one of the largest overseas contingents of the Soviet intelligence and internal security agency, the KGB, to operate with virtual impunity.

Mexico, he said, is "an open country," and any country is allowed to have as many diplomats stationed in Mexico City as it chooses.

New attention has been focused on Mexico City because of the arrest of John A. Walker Jr., who is accused of running an extensive spy ring for the Soviet Union.

Agents searching Mr. Walker's home in Norfolk, Virginia, found receipts from a

trip he apparently made to Mexico in 1975, and a senior U.S. official said the CIA and the FBI were trying to determine what role the Soviet Embassy may have played in Mr. Walker's activities.

So far, the official said, agents have found nothing conclusive. But they know that numerous Americans accused of spying for the Russians have acknowledged using the Soviet Embassy here to meet their Soviet contacts.

Diplomats at the Soviet Embassy declined to be interviewed for this article. Mexican government officials declined to offer official comment on questions concerning the Soviet presence, although some were willing to discuss the matter on the condition that their names not be used.

U.S. counterintelligence specialists estimate that at least 150 KGB officers are working out of the embassy under cover as diplomats, clerks, chauffeurs, journalists and in other jobs.

Increasingly, these specialists say, the KGB officers assigned to Mexico City have received technical training so that they can manage Soviet efforts to steal American military and industrial secrets.

They add that such officers use not only American agents, but also what Mr. Gavin called "dummy companies" set up in Mexi-

co to buy advanced American technology and then conceal its ultimate destination: the Soviet Union or Soviet bloc nations.

Many U.S. officials say they can not fully contain the Russian spy problem as long as the Soviet Union maintains a large, unrestricted espionage operation in Mexico City, less than 700 miles (1,128 kilometers) from the United States.

Mexico is an 'open country' where any nation may have as many diplomats as it chooses.

—Senior Mexican official

American and Mexican officials say the Mexican government allows Soviet agents to work here virtually without restraint as long as their target is the United States, not Mexico.

Although the CIA maintains a large station, a senior American official said the CIA officers could not effectively monitor

Soviet activities because they were far outnumbered by agents of the KGB and other Eastern bloc nations that maintain embassies here.

Under a longstanding cooperative effort, the Mexican authorities record calls to and from the Soviet Embassy, and transcripts of the conversations are given to the CIA, according to sources in the Mexican government.

But American officials say they cannot rely entirely on cooperation from the Mexican authorities. After a recent scandal involving allegations of bribery and drug dealing in the Federal Security Directorate, some senior American officials are worried that the directorate has been penetrated by the KGB.

A senior Mexican official called that charge "preposterous."

Mexico has fewer than 50 people stationed at its embassy in Moscow. But the Soviet Embassy here, with more than 300 people, is one of the largest Soviet diplomatic missions in the world, even though Moscow has few official dealings with Mexico. Less than 1 percent of Mexican exports are sold to the Soviet Union.

The fundamental problem, U.S. officials say, is the Mexican acquiescence in the Soviet spying.

"We have a very clear idea of what our long-range strategic interests are, and they are not with the Soviet Union," an Interior Ministry official said.

But Mexican and U.S. officials say anti-Americanism is such a central part of Mexican political life that Mexico tolerates the Soviet espionage precisely because it irritates the United States.

Mexico has long had cordial relations with the Soviet Union. And Mexican and American officials said the Mexican government believed that if it tolerated a large Soviet and Cuban presence, the Communist countries would not interfere in Mexican affairs.

U.S. officials say Mexico could ask the Soviet Union to maintain an embassy no larger than is actually needed for its diplomatic mission in Mexico.

But the United States has never asked the Mexicans to order the Soviet Union to reduce its embassy staff, several American officials said.

Richard Helms, a former director of the CIA, said such a request would be counterproductive because "the Soviets would then ask the Mexicans to order us to reduce the size of our embassy, and you'd just end up with hash."

Reagan Pledges to Avenge Marines

President Vows to Bring Salvador 'Jackals' to 'Justice'

By Gerald M. Boyd
New York Times Service

WASHINGTON — President Ronald Reagan, in a ceremony charged with emotion, has pledged to bring to justice the gunmen who killed four U.S. marines Wednesday in San Salvador.

"They say the men who murdered these sons of America escaped, disappeared into the city streets, but I pledge to you today they will not evade justice on Earth any more than they can escape the judgment of God," Mr. Reagan said. "We and the Salvadoran leaders will move any mountain and ford any river to find the jackals and bring them and their colleagues in terror to justice."

He was speaking at a short ceremony as the bodies of the marines arrived Saturday at Andrews Air Base outside Washington. The base was crowded with a mixture of families, administration officials and a U.S. Marine honor guard and band.

Among those present were Vice President George Bush, Secretary of State George P. Shultz, Defense Secretary Caspar W. Weinberger and the national security adviser, Robert C. McFarlane.

The coffins of the marines, covered with U.S. flags, were carried one at a time by three marines on each side. The coffins went through a corridor of marines and were

placed on separate platforms covered with black cloth.

The marines, who were off duty at the time, were killed by men carrying automatic rifles in an outdoor café in an affluent section of San Salvador. Seven Latin Americans and two U.S. businessmen were also killed.

Mr. Reagan, who read from a prepared statement, appeared to fight back tears as he said:

"Now today we grieve for four young men taken from us too soon. And we receive them in death as they were in the last night of their lives — together, and following a radiant light — following it toward heaven, toward home."

After his remarks, Mr. Reagan pinned Purple Heart medals on each coffin and greeted family members. Mrs. Reagan, who also greeted the relatives, embraced several of them.

Mr. Reagan did not specify what retaliatory measures he might take. He talked with President José Napoleón Duarte of El Salvador on Friday and pledged to work "in pursuit of the common goals we share," a White House spokesman said later.

The spokesman said Mr. Reagan had urged Mr. Duarte to start a special Salvadoran investigative unit trained by the United States to examine such incidents. Mr. Duarte should "do everything he

could to get the unit into action," Mr. Reagan was quoted as saying.

Mr. Reagan announced Thursday that he was approving an emergency shipment of military supplies to El Salvador and would begin an administration review of ways to combat terrorism.

Assassins' Unit Named

Robert J. McCarney of The Washington Post reported from San Salvador:

The commandos who carried out the attack on the marines belonged to a unit of 75 guerrillas who specialize in urban paramilitary attacks and sabotage, according to a Salvadoran armed forces document.

The unit was formed last year and was named after a dead guerrilla leader, Mardoqueo Cruz, the document said. The unit claimed responsibility for the attack in a communiqué released Friday. The statement was endorsed and broadcast Saturday by Radio Venceremos, the radio of El Salvador's main guerrilla organization, the Farabundo Martí National Liberation Front.

The unit is the urban organization of the Central American Revolutionary Workers' Party, which is one of the smaller guerrilla forces in the front.

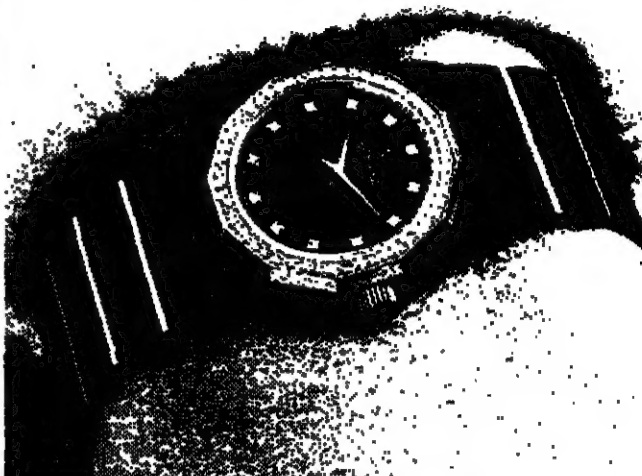
"Did Ronald Reagan think that he would come to make war in El



Mr. Reagan at the ceremony.

Salvador and that his soldiers were not going to die?" said the radio, which is based in a guerrilla stronghold in the mountainous northeastern province of Morazan. "Urban guerrillas of the FMLN, we salute you from this anti-imperialist trench," it said, using the front's Spanish-language initials.

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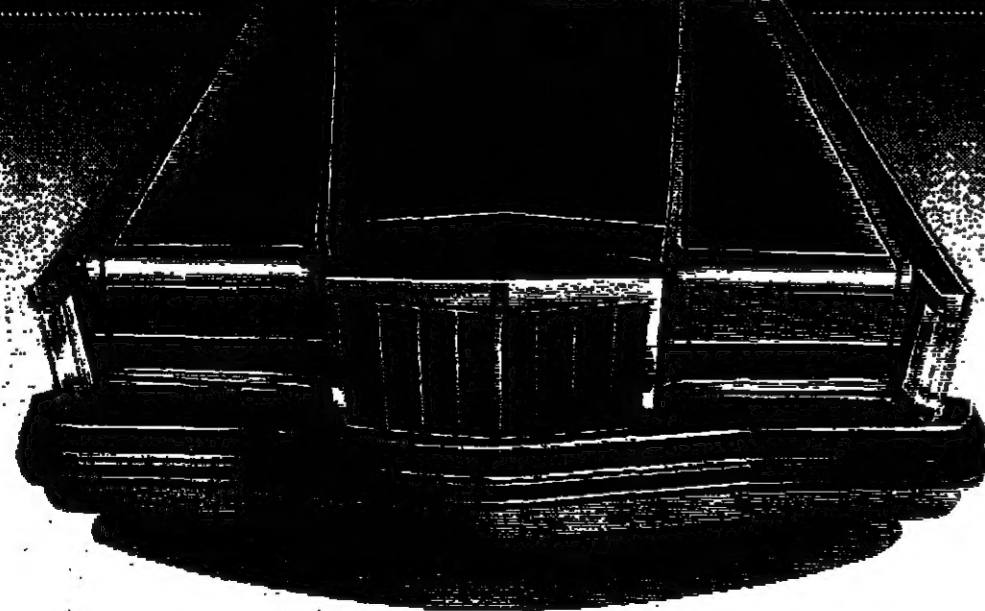
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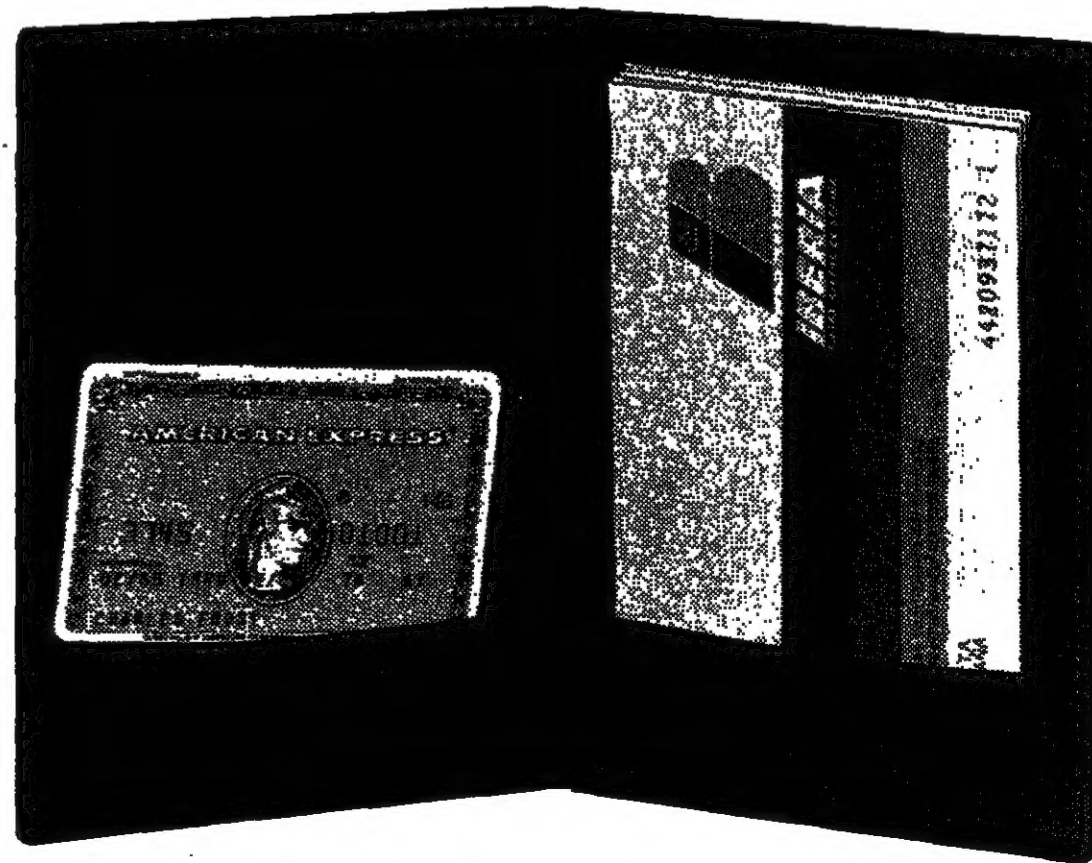


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FOR BETTER BUSINESS TRAVEL

India has become a net exporter of grain.

But because the results of the U.S. aid were neither dramatic nor immediate, disillusionment began to set in.

So, in 1973, Congress ordered a complete change of direction. The United States began emphasizing programs for the poorest of the poor, mostly in remote rural areas, mostly in Africa.

The World Bank and some donor nations followed the U.S. lead, producing almost a decade of programs designed to improve life in isolated villages. According to AID, 362 international missions visited a single African country in one year to plan assistance programs, leaving the country's limited number of managers little time to do much more than meet with all the foreigners.

The result, it has been generally

Casoroli's trip and the pope's meeting with the Polish foreign minister were part of a period of intense maneuvering in the Holy See's relations with the Soviet bloc.

John Paul is planning to issue an encyclical next month expounding his views on Eastern Europe and on what he has referred to as the "artificial" division of Europe.

In describing the meeting Saturday with Mr. Olaszowski, Vatican officials said the foreign minister had said that the Polish government had allowed the construction of 1,000 churches and other religious buildings in the past six years. But the pope spoke of "the wasser, in the words of one official, "that the problem is not relations between church and state, but between the state and Polish civil society."

Poland has also been seeking to establish diplomatic ties with the Vatican, but the Vatican has rebuffed the effort, saying the time is

that he intended to use \$10 million set aside as protection against inflation to help make up the loss of the United States' 25-percent share of the budget this year.

Earlier, all Western members except France agreed that this year's appeal for legal under UNESCO rules, but agreed that the general conference should make a final ruling in October.

During the meeting, Denmark became the most recent Western government to submit a strongly worded letter to Mr. M'Bow expressing dissatisfaction with the way the organization is run.

Britain, which has threatened to withdraw from the body at the end of this year unless there were far-reaching changes, made it clear at the end of the session that it wanted additional changes approved at the meeting in Sofia.

The British delegate, William Dodd, emphasized the need for greater "program concentration." The code phrase refers to Western members' belief that UNESCO, in cutting costs to make up the loss of the U.S. share of its budget, should eliminate politically controversial programs.

Those programs include plans which critics have described as attempts to restrict press freedom and to promote governmental rights over the rights of individuals, as well as the agency's stance on disarmament questions.

Karl Moersch, the West German delegate to UNESCO, said that his government also would like to see greater "program concentration."

oliing rackets, trafficking and peddling drugs and homicide, with a preference for using firearms and explosive materials.

Those arrested in Rome included at least two policemen, a neo-Fascist former regional councillor and a relative of Frank Coppola, the American organized crime figure, police said.

Pakistan Says Afghans Kill 3 in Border Shelling

The Associated Press

ISLAMABAD, Pakistan — Afghan government forces fired 20 artillery shells on the border town of Chaman in Pakistan's Baluchistan province, killing three civilians and destroying buildings, Pakistan's Foreign Ministry said Sunday. Newspapers in Pakistan said the shelling by tanks lasted 30 minutes.

The ministry said Afghanistan's charge d'affaires was summoned after the attack late Saturday and told that "if such attacks did not cease the entire responsibility for the serious consequences would rest on the Kabul government."

[illegible]

Bomb Blast Damages Bayer Office In Brussels

The Associated Press
BRUSSELS — A bomb damaged the Belgian headquarters of Bayer AG, the West German chemical company. It caused no casualties.

A previously unknown group calling itself the Peace Conquerors claimed responsibility for the explosion on Saturday.

The explosion left an 80-centimeter (31-inch) hole in the brick wall separating Bayer's building from a neighboring one, shattered street-level windows and damaged part of the entrance hall.

Telephone calls to news organizations in Brussels claimed responsibility for the bombing on behalf of the Peace Conquerors and indicated that the action was aimed at protesting purported dumping by Bayer of chemical waste in the North Sea.

In Paris, Agence France-Presse received a letter purporting to come from the Peace Conquerors, which claimed responsibility for the bombing last Wednesday at Frankfurt airport. Three persons were killed and 42 injured in that explosion.

The letter said the bombing was a warning. It also said that the group plans to destroy a major airport building and a jumbo jet. "We have decided to choose violence because it is our ultimate and only solution," the letter stated. "It does not bother us if women and children are killed. There are no innocents."



A policeman in San Francisco arrests a demonstrator protesting the University of California's decision to

review case by case its holdings in companies with South African operations, and not sell the stock outright.

U.S. University Compromises Over South African Holdings

Los Angeles Times Service

SAN FRANCISCO — Rejecting pleas to sell the University of California's holdings in companies linked to South Africa, a divided university board of regents has voted instead to set up a committee to conduct a case by case review of its stock portfolio.

Under the compromise measure, drafted by the university's president, David Gardner, the advisory panel will judge "the quality of corporate citizenship" of U.S. companies that do business in South Africa, using as a standard policies that encourage "vigorous promotion of racial equality."

The panel's findings, announced Friday, would be forwarded to Mr. Gardner for possible use in decisions on future university investments. Mr. Gardner said, however, that only three U.S. companies whose stock is among the university's holdings would possibly fail the "corporate citizenship" test.

Israel Delays Mengele Decision Case to Remain Open Pending Examination of Evidence

Reuters
JERUSALEM — Israel has thanked the Brazilian authorities for the examination of a body said to be that of Josef Mengele, but it said Sunday it wanted to examine the findings before concluding he was dead.

A Justice Ministry spokesman said Israel was awaiting material from forensic experts who examined the remains in São Paulo and other evidence before closing the case.

Scientists from Brazil, the United States and West Germany said Friday that they were convinced that the corpse of a man who died in a swimming accident near São Paulo in 1979 was that of the Nazi war criminal.

Menachem Russak, the top Nazi hunter for the Israeli police, said earlier in Brazil that he agreed with the findings.

Dr. Mengele was sought because of his responsibility for the deaths of 400,000 people, mainly Jews, at Auschwitz during World War II. Israeli state radio said Saturday that Israeli experts had reports of him being seen alive since 1979.

In Frankfurt, the West German public prosecutor's office said it would not make a final ruling until it had examined reports from the experts who went to Brazil and compared them with evidence gathered in West Germany and Austria.

[A former Israeli intelligence chief said Saturday that he was not convinced that Dr. Mengele was dead. The Associated Press reported. "We must wait to see the official findings and not be satisfied



Romeu Tuma, the Brazilian police official in charge of the Josef Mengele investigation, surrounded by scientists and police agents, showing how photos of the Nazi war criminal were matched with a skull unearthed near São Paulo.

with the initial reports," said Isser Harel, former head of the Mossad, Israel's intelligence service. [Dr. Harel was responsible for the capture of another Nazi war criminal, Adolf Eichmann, in Argentina in 1960. Mr. Eichmann was kidnapped and taken to Israel, where he was charged with being responsible for the murders of millions of Jews during World War II. He was convicted and executed. [Mr. Harel said that if Dr. Mengele died in 1979, he believed Dr. Mengele's family would have tried to prove it then "when the forensic evidence would have been easier to establish in a postmortem."]

Experts Criticize Security at Airports in Athens, Beirut, Many Third World Nations

(Continued from Page 1)

would not disclose any security information about Heathrow, travelers say X-ray machines are used for screening and physical searches are sometimes conducted. Airport personnel are described as attentive, and access is closely controlled throughout. Domestic and international operations are kept separate, and all arrivals are separated from departures. Police officers are regularly on duty.

PARIS — The essential element at Paris airports is that police officers are involved in almost all security operations. At terminals 1 and 2 at Charles de Gaulle, passengers clear passport control, then go through X-ray machines operated by police officers, sometimes assisted by hired security guards. The procedure is the same at Orly Airport's international area, but a recent passenger reported that there were no X-ray machines and that hand baggage was individually scrutinized.

MADRID — Security at Barajas International Airport is rigorous, in part because the Spaniards are concerned about possible attacks by Basque terrorists. All carry-on luggage goes through X-ray machines and passengers pass through metal detectors. The Guardia Civil, a highly disciplined force, frequently checks passengers with hand-held detectors. Access to the passenger departure lounge is controlled by barricades and other devices. Direct access to the runway area is difficult without a boarding pass. Domestic and international operations are in separate terminals, and arrivals and departures are also well separated.

WEST GERMANY — Security taken seriously at the major airports in Frankfurt, Düsseldorf, Hamburg, Stuttgart, and West Berlin, and it is considered extremely difficult to get a weapon, or anything that looks like one, onto a flight originating in West Germany. Travelers say they are routinely asked to open briefcases even after they have been X-rayed. Body searches are common even after passengers walk through metal detectors. In periods of particular tension, passengers must identify their suitcases on the runway before boarding planes.

STOCKHOLM — At Arlanda Airport, which has separate domestic and international terminals, all baggage is X-rayed on international flights and security guards are in evidence. Access to the airfield is carefully controlled, and the staff seems trained and professional.

ATHENS — At the international terminal at the Athens airport, hand baggage is X-rayed and passengers pass through a metal detector. According to the airport commander, police officers are posted at each station. On a recent visit, all posts were manned and workers seemed alert, but at other times attention has been perfunctory. Physical searches seem rare.

N.Y. Orchestra Cancels Greek Tour

New York Times Service

MADRID — The New York Philharmonic, on a European tour, canceled performances in Greece, scheduled to begin Sunday, because of a State Department warning against flying into Athens.

The State Department issued the warning four days after two Shiite Moslems boarded a Trans World Airlines plane in Athens and hijacked it.

Zubin Mehta, the Philharmonic's music director, and Albert K. Webster, the general manager, said that the decision to cancel the trip was made Saturday morning after many of the 175 players and staff members on the tour said they feared for their safety.

In Athens, the Greek minister of culture, Melina Mercouri, assailed the cancellation as "an unfriendly act" and "an affront" to Europe.

Referring to President Ronald Reagan's warning to Americans to avoid Athens Airport as a place of terrorist danger and a State Department travel advisory to that effect, Miss Mercouri spoke Saturday night of "a campaign of intimidation directed against the American people."

Some airlines re-check passengers at the airport as they prepare to board their plane. There appears to be no easy way of getting out onto the runway area without passing by police and airline personnel. The perimeter of the airfield is considered the weakest link in the airport's security. Recent improvements have been made in the fencing, and tighter security measures are planned. In view of the airport's proximity to the Middle East, many believe that security measures in Athens should be much tighter.

ROME — At the international airport, hand-baggage is X-rayed and passengers pass through metal detectors, but some travelers have found that the equipment is not highly sensitive to the presence of metal objects. Some airlines carry out their own security checks, particularly regarding carry-on baggage. Guards can be seen patrolling the catwalk that overlooks the main passenger area. The airport is well designed, preventing people from wandering about unnecessarily, but airport workers sometimes seem listless.

ZURICH — Mr. Wallis of the international airlines group characterized the security at Kloten Airport in Zurich as "first rate." Passengers are checked with a hand-held metal detector, and frisking is routine. Hand-held baggage is X-rayed, and bags are generally inspected by hand. Armed guards are in evidence, and armored cars are sometimes stationed on the field. Passenger movements are well controlled, and airport personnel, though polite, are attentive, businesslike and highly professional.

WARSAW — All passengers must pass through X-ray machines, and security personnel are well trained. Customs officers inspect much of the baggage that is checked on flights. Well-armed troops are sometimes in evidence in the airport and on the runway area watching aircraft. Domestic and international passengers use different terminals.

600,000 U.S. Taxpayers Still Owed Refunds by IRS

Los Angeles Times Service

WASHINGTON — As many as 600,000 Americans have yet to receive overdue tax refunds because the Internal Revenue Service has been unable to find their files in its new computer system, according to the head of the IRS.

Taxpayers who have not received refunds should file duplicate returns while the agency continues to search its computers, IRS Commissioner Roscoe L. Egger Jr. said Friday at a hearing of the House Ways and Means oversight subcommittee.

He said all refunds would be

paid eventually, perhaps by the end of July.

New computer equipment worth \$103 million modernized the IRS this tax season have been cured. He denied charges by Representative J.J. Pickle, a Democrat from Texas and chairman of the subcommittee, that the tax returns were lost. "They're in the file somewhere," Mr. Egger said.

Middle East

TEL AVIV — Ben Gurion International Airport is regarded as one of the world's most security-conscious, with unusually thorough and time-consuming procedures. Arriving passengers are interviewed by officers who examine their luggage, sometimes item by item. After going through passport control, passengers and their luggage are X-rayed. Physical searches take place when there is cause to suspect a traveler.

Security personnel are trained to recognize what are known as hijacker profiles. Access to the departure lounge and the runway area is strictly controlled. Domestic and international flights are separated, as are international departures and arrivals. Police and security guards are conspicuous. El Al, the Israeli national airline, provides its own supplementary security checks in airports abroad.

AMMAN — Queen Alia International Airport, which opened in 1982, was designed with air piracy in mind. Only ticketed passengers may enter the upper deck, where departure lounges lead directly to docking gates. Terminals have at least two screening points, and armed police officers are conspicuous. Passport control is computerized, and airport personnel are familiar with terrorist profiles.

CAIRO — Security is extremely tight at the two main terminals of Cairo International Airport. All movement between departure areas and planes is by bus, and no passengers may walk on the runway area. Police officers screen passports and tickets. Before entering the departure area, passengers are screened again by electronic gates, and hand baggage is X-rayed. A third screening, which involves a physical search and the opening of carry-on luggage, occurs in the departure lounge, where police officers guard each aircraft day and night. Mr. Wallis praised "the high level of awareness about security."

Africa

NAIROBI — At Jomo Kenyatta Airport, luggage is X-rayed, and attendants often inspect carry-on luggage by hand. A hand-held metal detector is also used on passengers. Access to the departure lounge and the runway area is closely controlled. Police officers

are noticeable, and personnel tend to be strict.

Asia

INDIA — All major Indian airports use X-ray machines, and passengers are searched upon entering the departure lounge. Access to departure lounges is closely controlled, and metal detectors are used when passengers leave the transit area to board planes. Carry-on luggage is searched, and entrances to check-in areas are guarded by armed police. The New Delhi airport has separate buildings for international arrivals, international departures, and domestic flights.

BEIJING — There is a single "choke point" between the check-in area and the aircraft through which all departing passengers go. All hand baggage is X-rayed and much of it is opened. After passing through a metal gate, passengers are often searched with a metal detector. Every flight carries security agents.

TOKYO — Security at the new international airport at Narita is among the tightest in the world. About 1,500 police officers and 400 civilian guards patrol the grounds. The airport is surrounded by barbed wires, steel barricades, and electrified fences, aimed not specifically at would-be hijackers but at local people who have protested the construction of the airport. Since it opened in 1978, there have been no hijacking attempts.

At the entrance to the ticket counters, officers run hand-held metal detectors over baggage to be checked. This baggage is X-rayed again before being loaded onto the plane. After immigration checks, passengers must have their hand-held luggage X-rayed and must pass through metal detectors, and nearly everyone is physically searched.

SEOUL — Kimpoo International Airport is unusual in that even passengers on arriving flights must walk through metal detectors and have their hand baggage X-rayed.

BANGKOK — In Donmuang Airport, the busiest in Southeast Asia, security is unobtrusive but appears very efficient, although actual searches are rare. In these respects, the airport is typical of others in the region. In the departure lounge, passengers go through X-ray and metal detector equipment when a flight is called, although passengers from several flights can mix in the areas beyond the detectors. Access on the runway area is strictly controlled. Airport personnel seem competent and alert.

KUALA LUMPUR — The airport in Malaysia's capital is alone in the region in X-raying all baggage of passengers entering the terminal building even before check-in. Hand baggage is X-rayed and subject to an additional search before the passenger boards the plane. Domestic and international flights are strictly separated.

SINGAPORE — Only Singapore Airlines requires all baggage to be inspected on entering the building. Although access between arrivals and departures is easier here than in some other airports, detection devices are situated at the gate of each flight's boarding lounge. The airport is spacious and never crowded, so personnel can easily observe the proceedings.

JAKARTA — In April, a new international airport opened at Cengkareng, outside the city. The layout, with a series of pavilions connected by open walkways, probably makes the airport vulnerable to unauthorized entry. Luggage is examined only once.

Latin America

RIO DE JANEIRO — At Galeão Airport security is lax, as it is in most of Latin America, although there have been almost no hijackings in the region in recent years.

Individuals and hand luggage are screened by X-ray devices on international flights, but not for domestic flights. The police presence is minimal. In addition, although international and domestic departure lounges are different, it is easy to move from one to another. Mr. Taylor of the pilots' association said, "The level of security varies enormously."

LIMA — At Jorge Chavez Airport, X-ray machines are used for international flights but not for domestic flights, despite Peru's guerrilla war. There is more of a military presence here than in Rio de Janeiro. As is true elsewhere in the region, drug smugglers are the main target of security.

MEXICO CITY — At Benito Juarez airport, security is minimal, and officials allow almost anyone with a serious-looking credential to accompany departing passengers or await arrivals at the door of the plane.

MANAGUA — Security procedures at Augusto Cesar Sandino International Airport are much tighter than at other Central American airports. Plainclothes police officers patrol waiting areas. All baggage is searched. Armed soldiers patrol the runway area.

North America

NEW YORK — "We have no questions about its safety whatsoever," Mr. Wallis said of Kennedy International Airport. Along with the usual metal detectors and X-ray machines, there are alarm systems to detect intruders, and uniformed and plainclothes officers are in evidence. Special badges and license

plates are among the devices used to keep the airfield secure.

MIAMI — At the international airport, passengers appear to be screened thoroughly by X-ray machines and metal detectors, but they move quickly through the checkpoints — at the rate of less than 20 seconds each. Security is

provided by private companies employed by individual airlines and by Dade County, which has a 120-member police force covering the airport. Because of Miami's proximity to the Caribbean, the companies give their personnel specialized training, an airport official said. In the last 12 years only two

hijackings have originated from Miami, he added.

OTTAWA — Security at Canadian airports is virtually identical to that of the United States. X-ray machines are used to screen all carry-on luggage, and passengers must walk through a metal-detecting device. Police are on duty.

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16.40 SKY TRAX 2	20.10 THE UNTOUCHABLES
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ELLEN SIMER.

BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT

MONDAY, JUNE 24, 1985

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Scoring Top Points In Secrecy Debate

By David B. Tinnin

GENEVA — A hot debate is growing between Europe's two prime refuges for private capital. Which has the more effective banking secrecy laws — Switzerland or Luxembourg?

To an increasing degree, the Luxembourg banks are insisting that they are in first place. The motivation is simple. As more and more Luxembourg banks seek to attract private investors, the bank executives are learning that tight confidentiality rules impress potential clients. Although no one wants to be identified by name, some Luxembourg bankers readily admit that they describe their laws as being tighter and containing far fewer loopholes than those of Switzerland.

In addition, several prestigious Luxembourg lawyers are advising possible depositors that Switzerland has given away a lot of its secrecy safeguards in the past few years, notably in the mutual assistance treaty with the United States and a new Swiss federal law that obliges Swiss banks in some instances to cooperate with foreign fiscal and banking authorities.

The Luxembourg claim to be No. 1 has been buttressed by articles in the international press that have described Switzerland as no longer the financial fortress of old.

Inadvertently, the Swiss have hurt their own cause by engaging in a running public quarrel over the wisdom — or foolishness — of several recent federal practices that add to the cost and complexity of banking transactions in Switzerland. A prime example is the 6-percent sales tax on gold, a measure hurting Zurich's role as one of the world's leading gold markets.

Swiss domestic politics also have been damaging. The challenge to the banking secrecy laws posed by the Socialist Party of Switzerland, one of the country's largest political groupings, continually causes anxiety abroad about the stability of Swiss banking secrecy. Actually, the Socialists were beaten in a nationwide referendum by such a massive 3 to 1 majority that foreigners should have felt reassured about the solid Swiss support for a continuation of the status quo.

However, the concern persists. Ironically, it may have been helped by the much publicized acquisitions and moves abroad by the big Swiss banks whose actions have created the unsettling impression that maybe something really is wrong with Switzerland as a financial bastion.

Understandably, the Luxembourg banks have charged through this psychological breach in Switzerland's long vaunted impenetrability. The Luxembourg banks have a sound and well conceived banking law to brag about. Banking secrecy has, in fact, been a part of Luxembourg's financial life for many decades. However, it was not until 1981 that the present law went into effect. This law codifies the role of banker as being similar to that of clergyman or physician and binds him to keep secret the client's financial status from all third parties, except if the client commits a criminal offense.

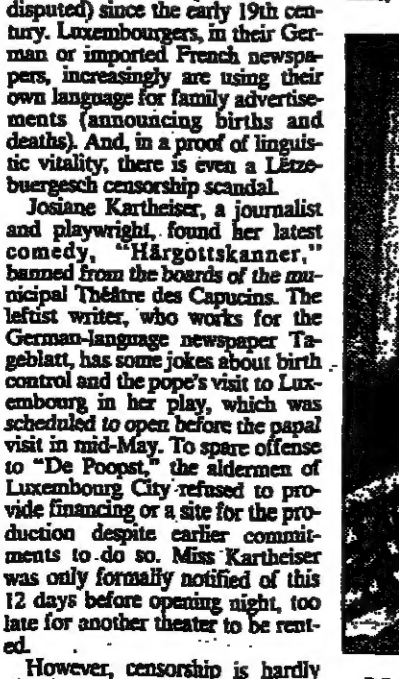
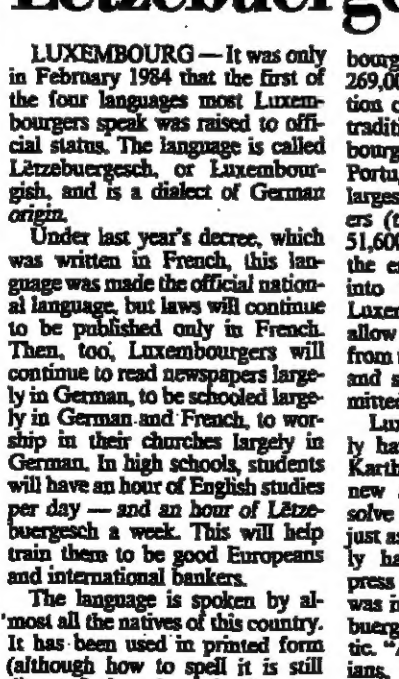
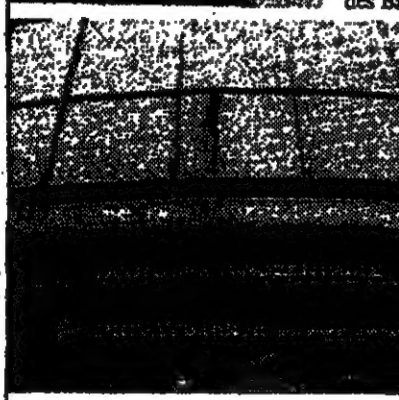
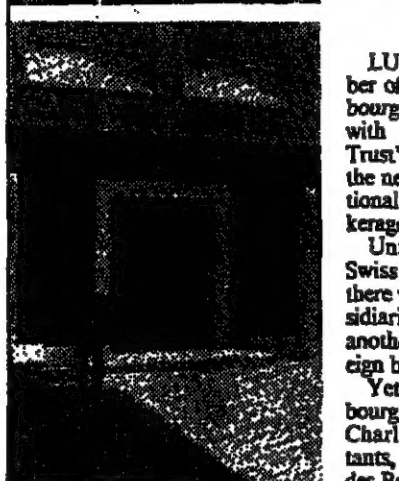
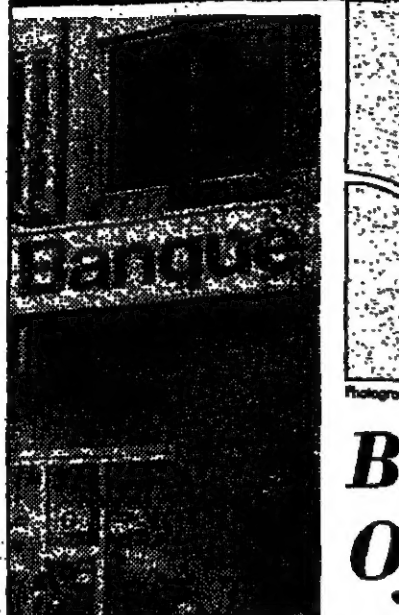
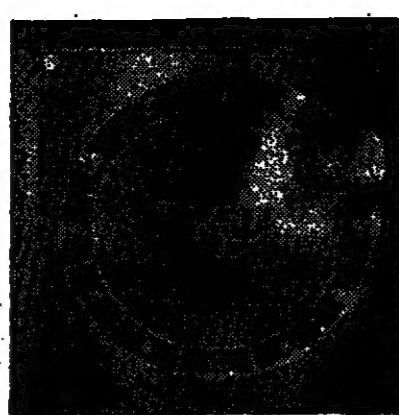
The 1981 law is highly innovative in providing what the Luxembourg banks call "asymmetrical protection." That means that the asset side of the bank's balance sheet, including the big loans and exposures in Third World countries, can be disclosed both to Luxembourg banking authorities and to the home offices of banks operating in Luxembourg. But it also means that on the liabilities side of the ledger, where the deposits are entered, the names and amounts of the account holders are closely guarded.

"The Luxembourg law fits nicely into the philosophy of the times," declared Voker Burghard, the managing director of Dresdner Bank International. "The law enables large banks to assess their overall global exposure on a worldwide basis while at the same time guarding the depositors against prying official government agencies."

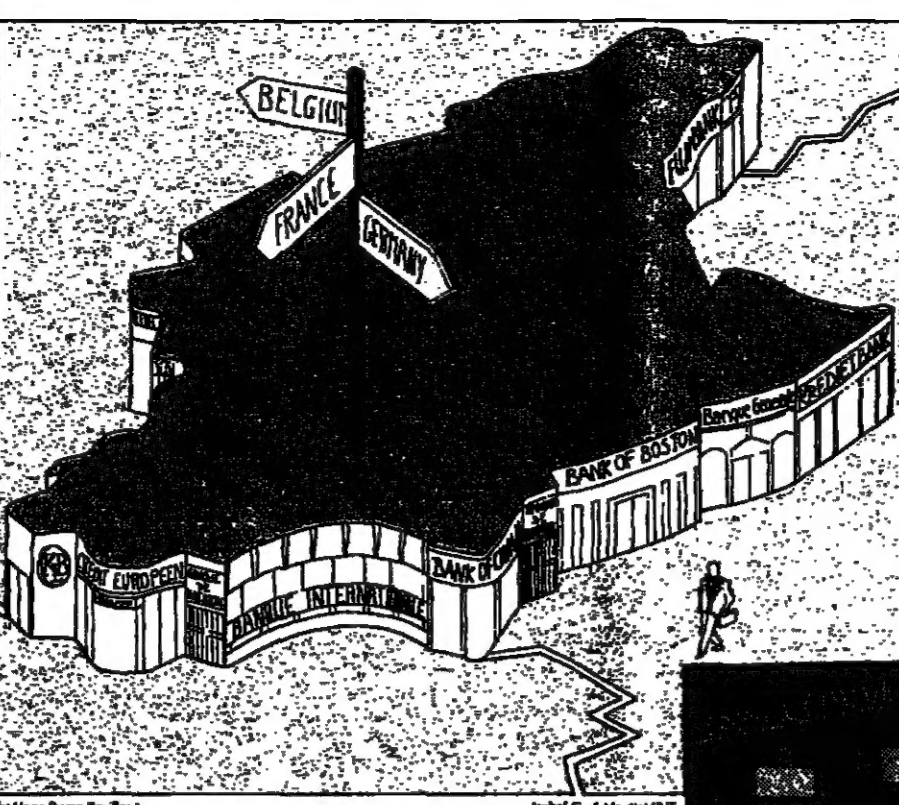
Alex Schmitt, a U.S.-trained Luxembourg lawyer, said he believed that "the Luxembourg law is as strong as and probably stronger than any other banking secrecy law in Europe."

Despite all the talk about rivalry, the Luxembourg law and its Swiss counterpart are remarkably similar. In addition to the Luxembourg provision for asymmetrical protection, there are only a few basic differences. Perhaps the most important is that a depositor in a Luxembourg bank cannot waive the right to secrecy even if he or she wants to, while a Swiss depositor can renounce the right if such an act would be helpful. An example would be the use of otherwise se-

(Continued on Page 11)



Message on a wall: "We want to remain what we are."



Banking: In Search Of a Brand Image?

By Vivian Lewis

LUXEMBOURG — The number of banks operating in Luxembourg has risen to a record level, with the opening of Sumitomo Trust's subsidiary last month and the new Prudential-Bache International Bank (separate from the brokerage house).

Until the planned closure of Swiss Volksbank this summer, there will be 119 foreign bank subsidiaries in Luxembourg, as well as another 10 branches of other foreign banks.

Yet, the first study of Luxembourg's image — undertaken by Charles Barker, British consultants, on behalf of the Association des Banques et Banquiers de Luxembourg — has revealed that the grand duchy lacks a "brand image." Worse, the association's president, Rémy Kremer of Banque Générale de Luxembourg, said at a news conference that Asians polled mixed up Luxembourg and Liechtenstein.

While new banks continue to settle in Luxembourg, their

prestige is lower. In the 1970s, Luxembourg's heyday, 10 world-scale banks per year opened their doors in the grand duchy. Whatever the newly formed banking arm of Prudential-Bache may turn out to be, it is unlikely to substantially add to the volume of business in Luxembourg banking.

As a Eurocenter, in fact, Luxembourg today is less important than it was a decade ago, now that Asian-dollar banking centers are competing, a range of financial alternatives to straight bond purchases are being

offered in London, and New York has its own offshore banking system. In 1984, less than a quarter of all Euro-underwritings were participated in by Luxembourg-based banks and only 37 percent of Euro-bond issues were traded on the Luxembourg stock exchange.

While these figures are an improvement from 1983 levels (in part because of the effect of a high dollar in 1984), they are far from the levels of a decade ago, according to

(Continued on Page 13)

The Duchy Makes It Official: Lëtzebuergesch Spoken Here

LUXEMBOURG — It was only in February 1984 that the first of the four languages most Luxembourgers speak was raised to official status. The language is called Lëtzebuergesch, or Luxembourgish, and is a dialect of German origin.

Under last year's decree, which was written in French, this language was made the official national language, but laws will continue to be published only in French. Then, too, Luxembourg banks will continue to read newspapers largely in German, to be schooled largely in German and French, to worship in their churches largely in German. In high schools, students will have an hour of English studies per day — and an hour of Lëtzebuergesch a week. This will help train them to be good Europeans and international bankers.

The language is spoken by almost all the natives of this country. It has been used in printed form (although how to spell it is still disputed) since the early 19th century. Luxembourgers, in their German or imported French newspapers, increasingly are using their own language for family advertisements (announcing births and deaths). And, in a proof of linguistic vitality, there is even a Lëtzebuergesch censorship scandal.

Josiane Kartheiser, a journalist and playwright, found her latest comedy, "Härgottskanner," banned from the boards of the municipal Théâtre des Capucins. The leftist writer, who works for the German-language newspaper Tagblatt, has some jokes about birth control and the pope's visit to Luxembourg in her play, which was scheduled to open before the papal visit in mid-May. To spare offense to "De Pöppel," the aldermen of Luxembourg City refused to provide financing or a site for the production despite earlier commitments to do so. Miss Kartheiser was only formally notified of this 12 days before opening night, too late for another theater to be rented.

However, censorship is hardly the biggest problem facing Luxembourg. In a country with 269,000 natives and a total population of 364,000, the real threat to tradition are the "little Luxembourgers" who speak Italian or Portuguese at home, to cite the largest number of immigrant workers (the two groups account for 51,600 people). In negotiations on the entry of Spain and Portugal into the European Community, Luxembourg was very reluctant to allow free movement of workers from these countries within the EC, and special restrictions were permitted for the grand duchy.

Luxembourg literati, who usually have a second job, like Miss Kartheiser, are convinced that any new arrivals will eventually dissolve in the national melting pot, just as earlier immigrants from Italy have done. The government press spokesman, Lex Roth, who was instrumental in getting Lëtzebuergesch made official, is optimistic. "Among third generation Italians, most speak Lëtzebuergesch

but can't speak Italian," he noted. "The same will happen with the Portuguese."

The immigrants come to Luxembourg because there is need for them here, precisely because of the problem Miss Kartheiser spoofed in her play: depopulation. Most Luxembourgers are not so devoted to their culture and language that they will produce babies to perpetuate it and the result is a declining population of natives.

The Luxembourg slogan, "Mir wëlle bleiwe wat mir sijn" (We want to remain what we are), still stands stenciled on the walls of a café on the Rue de la Loge in the Old City. But behind the walls today, there is a Greek restaurant.

Yet for a tiny country, cultural life is reasonably lively. There is a native pop star, even if "Buffalo Wing" sings country-and-western music in English. There is an English-language weekly, The News

(Continued on Page 12)



Message on a wall: "We want to remain what we are."

A Resurgence in Steel Industry As Banking Enters Flat Stretch

By Michael Metcalfe

LUXEMBOURG — Luxembourg is well into an era that may prove to be watershed years for its economy and industry.

Key economic indicators — growth, production, trade, inflation and employment — either showed improvement where deterioration had been expected or acceleration that was faster than had been forecast.

Gross domestic product, which was expected to drop in 1984 for the fourth consecutive year — perhaps by as much as up to 1 percent when banking services are excluded — actually returned to growth of about 4 percent, according to government estimates.

Steel, the mainstay of the grand duchy's social and economic strength, moved ahead for the first time in 10 years during 1984 and into 1985. However, banking, for the past decade the keystone of state policy to grow and diversify away from a single product, was flat.

Political and economic continuity were assured by the return to power after national elections last June of Finance Minister and President Jacques Santer's conservative Christian Social Party, albeit in a coalition that brought in the opposition Socialists at the expense of the Liberals.

"The contours of government policy may have shifted slightly with the entry of the Socialists, but the main lines of economic and financial policy remain unchanged," a government official said recently.

The election, which produced few surprises except for pushing the Liberals into opposition for the first time in 15 years, reflected the tradition of consensus politics and negotiated compromise built up by Luxembourg over the past century.

Propelled by more dynamic external demand, a sharp resurgence in the steel sector gave the cutting edge to the economic recovery last year.

Gross steel production jumped by 21 percent in 1984, after declining 17.9 percent, 7.4 percent and 6.3 percent in 1981, 1982 and 1983 respectively. Government efforts to reshape the industry appear to be paying off; from 1974 to 1980 production capacity dropped by 15 percent.

ARBED, still the country's largest single employer and exporter and Europe's fourth-largest steel producer last year, has returned to the black for the first time in a decade. Operating profits were up 25 percent and sales up 18 percent at 10.5 billion and 56.7 billion Luxembourg francs respectively.

The government has cushioned the monolith against the worst of the international steel crisis by topping up its capital resources with periodic injections of funds and share purchases, which have resulted in the state raising its share in ARBED to 30.8 percent, making it the largest single shareholder.

Financing earmarked over the short term amounts to a little more than 9 billion francs. ARBED continues to remain a charge on government finances until it starts paying taxes again once its debt burden is sizably reduced, government officials said.

ARBED's workforce has shrunk to around 14,000, a drop of more than 40 percent from peak levels a decade ago, with the figure expected to stabilize around 12,500 by 1987.

The government is not pinning its hopes on the continuation of the brisk pace of the revival in steel during 1985, however. "There is a degree of uncertainty as to demand for Luxembourg's steel products; we believe it will be more subdued, so that the external contribution to growth will probably diminish," an Economics Ministry official said.

Official forecasts for real GDP growth this year call for expansion in the vicinity of 2 percent, an estimate broadly in line with projections of the Paris-based Organization for Economic Cooperation and Development.

According to the organization, unemployment in the grand duchy peaked at the beginning of 1984 at a little under 2 percent of the total workforce of 160,000.

The government's manpower policy of retraining projects and encouraging occupational mobility, coupled with an increase in industrial production, largely contributed to the decline.

Moreover, the government's policy of finding a new job for every one lost in the steel sector has also played its role in keeping unemployment levels down.

Overall industrial production last year jumped by between 12 and 14 percent, a sharp increase compared with 1983 levels when output in all sectors averaged a 4.5-percent rise. The export-oriented sectors of industry performed best, with construction lagging sharply.

One of the biggest surprises in the general economic picture last year was the sharp deceleration in the pace of domestic inflation.

The 1984 forecast by STATEC, the government statistics board, that inflation would "slow down only slightly, with a considerable risk of unexpected difficulties," proved unfounded. In fact, the reduction in inflation speeded up to bring the final rate down to 5.7 percent from 8.6 percent in 1983.

Measured against its European neighbors, Luxembourg was at the lower end of price increases in the European Community's 10 member states during 1984, with Greece at the top with 18.3-percent inflation and West Germany at the bottom with 2.4 percent, according to Eurostat, the Common Market statistics bureau. However, now that wage indexation has been resumed after being suspended in 1982, when a devaluation of the Belgian and Luxembourg francs threatened a stampede in prices, the resulting automatic increases in wages and salaries could boost householders' (Continued on Next Page)

INTERNATIONAL BANKERS INCORPORATED

Société Anonyme Luxembourgeoise

Extract from the Audited Accounts for Twelve Months Ended 31 December 1984

BALANCE SHEET (expressed in million US \$)	1984	1983
Deposits with banks	97.8	192.1
Loans and advances secured	182.9	62.8
unsecured	125.9	30.7
	308.4	93.5
Total Assets	428.7	288.5
Bank Deposits	218.9	136.5
Customers deposits	113.6	88.1
Subordinated loan	40.0	20.0
Share capital	40.0	40.0
Reserves and provisions	11.4	1.8
INCOME STATEMENT (expressed in million US \$)		
Net Operating income	13.6	4.1
Operating expenses	3.5	1.7
Pre-tax profit	10.1	2.4

Results for 1983 cover the period from commencement of business 3rd May 1983 to 31st December 1983. The incorporation date was the 15th March 1983.

Reserves and Provisions include specific and general reserves in accordance with Luxembourg statutory and fiscal regulations.

This report does not purport to be the Luxembourg statutory financial statements of the bank, established in accordance with the regulations of the Luxembourg regulatory authorities, which have been published in the Official Gazette ("Memorial") in Luxembourg.

Auditors - Peat Marwick Mitchell & Co, 23 rue Beaumont, L-1219 Luxembourg. Tel: 47 92 71

Telex: 2940.

Copies of Complete financial statements and annual report can be obtained on application to the operations manager in Luxembourg.

INTERNATIONAL BANKERS INCORPORATED S.A.

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Executive Management
Louis C. Louvet Managing Director

BIL continues successful performance in 1984

Increased international activities

Banque Internationale à Luxembourg, Luxembourg's oldest and largest private commercial bank, has once again achieved good results in 1984.

The balance sheet total amounted to 238 billion Frs (3.8 billion \$ US), an increase of 10.1% as compared to 1983.

Income from interest differentials and commissions improved considerably, so that cash flow showed a further growth up to 3,339 million Frs (52.9 million \$ US) allowing the bank to constitute substantial provisions as well as to raise its profit results by a further 14%.

Internationally BIL performed again very successfully on the Eurobond market where the bank managed, resp. co-managed 70 issues of which 16 were in Can. dollars and 39 in ECU. The total volume of ECU bonds managed by BIL tripled within two years.

On the secondary market the bank strengthened its market maker position by offering daily prices for more than 200 Eurobonds, including a broad range of ECU issues.

Furthermore the bank increased its capabilities in Eurofinancing and on the foreign exchange markets.

Next to the establishment and domiciliation of numerous holding companies, BIL was actively involved in the constitution of 5 new investment funds, bringing to 48 the number of funds now under the bank's administration.

The bank's international operations were backed by its representative offices in Singapore, London and New-York. BIL (Asia) Ltd, Singapore, a wholly-owned subsidiary specialized in international financial and asset management showed for 1984 quite satisfactory results.

During 1984 BIL became a full member of ABECOR, the world's largest banking group of its kind.

Based on the favourable prerequisites governing the financial centre of Luxembourg, both for institutional investors and for high net worth individuals, BIL

continued to undertake far reaching initiatives in order to offer to a continuously increasing international clientele a tailor-made banking service. In line with that commitment, BIL's range of specialist services includes: private banking, portfolio management, constitution of off-shore or holding companies, gold, bonds, deposits in eurocurrencies.

Financial Highlights

	per 30.12.84 - Lfrs 100 = ± 1.5853 US \$	1982	1983	1984
Net Profit		405	458	522
Distributed profit		160	206	260
Net dividend per share		Lfrs. 225	Lfrs. 250	Lfrs. 280
Cash Flow*)		2,392	2,886	3,339
Total Assets		199,495	216,569	238,440
Loans and advances		56,346	56,934	58,392
Due from banks		108,116	120,942	128,235
Due to banks		34,668	38,735	33,443
Customers' deposits		143,451	158,335	182,744
Own resources incl. borrowed capital		4,831	6,196	6,427

*) Net profit plus allocation for depreciation and provisions after deduction of the released portion of the previous years. The itemized balance sheet and profit and loss account are published in the "Mémorial-Receuil Spécial des Sociétés et Associations du Grand-Duché de Luxembourg".



BANQUE INTERNATIONALE A LUXEMBOURG

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A SPECIAL REPORT ON LUXEMBOURG

Bank Regulations Being Tightened, But Discreetly

LUXEMBOURG — At a time when the world's central bankers are pondering the need for greater checks and balances in international financial markets coupled with banking liberalization and diversification, Luxembourg is discreetly putting the finishing touches to its regulatory system.

As the country with the greatest banking concentration in the European Community, Luxembourg's 119 banks also enjoy the most banking freedom, although the grand duchy over the last 40 years has been at great pains to define the parameters of orderly market conditions and banking business.

"The fundamentals of the regulatory framework prevailing in Luxembourg have been virtually brought to completion now," said Pierre Jaans, director-general of the Luxembourg Monetary Institute, which supervises banking in the grand duchy.

The authority, which celebrates its second anniversary this June, sprang out of the Banking Commission established by grand ducal decree in 1945 to protect savings and ensure compliance with laws and regulations related to financial institutions and their operations.

Since 1945, the commission, followed by the institute, has been delegated a broadly defined role in the supervision of Luxembourg's financial markets, embracing control of the credit market and foreign exchange, legislation in monetary matters and the registration of securities.

Commercial bankers of all nationalities operating in the grand duchy feel comfortable with the monetary institute's aims and activities, holding the director in considerable esteem for the authority's ability to act quickly and decisively when the occasion warrants it.

One such occasion arose out of the problems associated with the Banco Ambrosiano episode in 1982. When the Italian bank's Luxembourg holding company halted payment, the parent bank in Milan did not step in on the affiliate's behalf and the Italian central bank refused to intervene.

Although holding companies did not fall directly into the commission's orbit, the banking commissioner, as Mr. Jaans was known at that time, promptly issued an ultimatum to all Italian financial holding companies operating in Luxembourg: either provide a letter of guarantee from the parent bank or leave.

The action, decisive as it was, helped to forestall further disruption on the unsettled money markets and enhanced Luxembourg's reputation as a financial center where orderly institutional and market conditions were regulatory priorities.

"Luxembourg's banking supervision is certainly not lax; that is documented both by day-to-day practice and by the prompt and strong reactions in situations that threaten to endanger the banking center," said Ekkehard Stork, managing director of Deutsche Bank's Luxembourg subsidiary, citing the Ambrosiano case.

The German banker also told a seminar recently that efficient, stringent banking supervision in Luxembourg could not be by any means be said to conflict with the principles of liberality or pragmatism.

"The banks' freedom of action is not restricted any more than necessary; wherever possible, recommendations and gentlemen's agreements are given preference over codified regulations. The laws, decrees, injunctions and recommendations are not one-sided edicts imposed from above, they are generally issued after in-depth discussions among all involved," Mr. Stork added.

Cooperation between supervisory authorities and commercial bankers over a number of years paved the way for the single-debtor rule.

The measure, which went into force from January this year, specifies that in an intermediate three-year period aggregate lending of

one bank or financial institution to a single entity or economic group should not come to exceed 50 percent of the bank's own funds, with the limit falling to 30 percent in the next two years up to the end of 1989.

Explaining the move, Mr. Jaans said a first round of discussions on rules limiting loans to a single debtor or to a proportion of a bank's capital and reserves had taken place in 1981.

The 1983 crisis at Schroeder, Muenchmeyer, Hengst, a German bank that overextended itself in problem loans to a failing German construction group, taught bankers that financial institutions run the greatest risks when exposure to single borrowers becomes excessively large, and when regulatory systems prove inadequate.

Thus, the Luxembourg banking community was already beginning to take regulatory steps to limit single-debtor exposure well before the troubles at Schroeder, one of the 30 German banks represented in Luxembourg, came to light.

Mr. Jaans said the Schroeder incident enhanced bankers' state of preparedness for the introduction of the single-debtor limit in Luxembourg. "While the measure was not specifically prompted by SMH, it proved to be in the interests of all to expedite the ruling," he said.

With Schroeder's Luxembourg subsidiary, once the storm broke, the Monetary Institute took swift action to ensure that the bail-out operation by West German banks also encompassed the Luxembourg unit.

"SMH was not a typical case of a bank stumbling over cluster risks, but an example of a very specific policy pursued to meet a certain end and which would be pursued even if stricter regulations apply," Mr. Jaans observed.

German banks, and automatically their Luxembourg affiliates, now have to contend with consolidation procedures resulting from a revised German banking act, which also limits single-debtor lending, so that the Luxembourg ruling applies only to those banks not included in the consolidated figures of a foreign parent.

With the moves toward greater deregulation, the opening up of new markets and innovative financing instruments sweeping financial centers like London, New York, Tokyo, Frankfurt and Paris, the question arises whether Luxembourg should follow suit.

According to commercial bankers and supervisory authorities in the grand duchy, calls for liberalization have not arisen in view of the country's prior policy of financial flexibility and supervisory pragmatism.

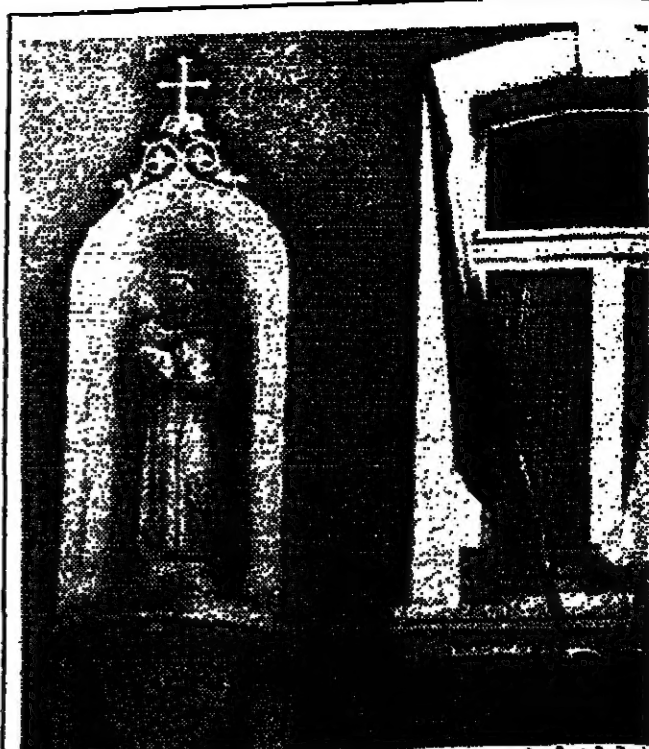
"The regulations here are always applied very flexibly; certain exemptions are always possible, though understandably there must be justification," said Jean Krier, general manager at Banque Internationale à Luxembourg, now in its 129th year of operations in the grand duchy.

The abolition of withholding tax by countries like the United States, West Germany and France last year has failed to drive business away from Luxembourg. On the contrary, the move has brought more private customer banking into the grand duchy.

The growing diversification of Luxembourg banking away from an overriding dependence on wholesale business — into private customers and consumer business, has brought with it the need to clarify and augment existing regulations.

The mushrooming growth in banks' fiduciary and other off-balance-sheet business has led to a clarification of the legal status surrounding such transactions, first in 1982 and later in 1983, setting guidelines for the proper handling of fiduciary deposits.

"Whereas it is quite clear that fiduciary business does not pose an insolvency risk to banks, there is a question of handling risk. A bank may be liable to mishandling and



A hospital in the capital, above. Below, two views of central Luxembourg.



that risk we wish to avoid," Mr. Jaans said.

While the growth in off-balance-sheet business has accelerated in recent years, spurred by the promise of increased commissions at a time when interest margins on Euro-market and other on-balance-sheet wholesale business grow slimmer by the day, the expansion as yet has not proved of major concern to the Luxembourg authorities, Mr. Jaans said.

The plethora of investment funds set up in the grand duchy after the law on holding companies was changed in 1983, numbering 32 at the end of 1984 and expected to reach 180 by the end of this year, is a phenomenon viewed by the Monetary Institute as providing good business to banks and, indirectly, to Luxembourg.

"The development, though brisk, is to be seen as another logical move toward diversification into other banking areas," Mr. Jaans said.

Other regulatory and deregulatory provisions, such as a strengthening of bank secrecy laws enacted

in 1981, the removal of value-added tax on gold and the absence of a withholding tax on nonresident deposits, have in their turn encouraged the growth of private banking.

Illustrating this development, Mr. Jaans noted that the ratio of private to bank liabilities has risen from 1:8 at the end of 1979 to 1:4 at the end of 1984. "It shows that banks appear to have been successful in efforts to become less dependent on the interbank market and to diversify their funding structure," he said.

"Such efforts are to be welcomed as contributing to a healthy and stable banking environment," Mr. Jaans said.

Moreover, in a banking environment where there are no minimum reserve requirements and where the solvency ratio between capital resources and aggregate liabilities is a low minimum 3 percent but nearer 4 percent in practice, the financial community has sound reasons to feel at ease with the present liberal state of supervisory control without daring to abuse it.

—MICHAEL METCALFE

DGZ International. Your link to the Euromarkets.

DGZ International in Luxembourg, a wholly-owned subsidiary of Germany's Deutsche Girozentrale - Deutsche Kommunalbank -, has a team of Euromarket specialists complementing the financing capabilities of the parent bank.

DGZ International mainly concentrates its activities on money market trading and money market related credit operations. Foreign exchange dealings round off a comprehensive Euro-market service spectrum.

DGZ International has been operating in the Euromarket for more than ten years, and it is recognized as one of the leading wholesale banks in Luxembourg.

The Frankfurt-based Deutsche Girozentrale - Deutsche Kommunalbank -, is one of Germany's major banks, the member institution on the federal level of Germany's Savings Banks Organization.



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Steel Recovers, Banking in Flat Stretch

(Continued From Previous Page)

purchasing power and in turn rekindle inflation. The mechanism, despite its inflationary tendencies, should help to speed up recovery in sectors closely related to growth in domestic demand, such as housing construction and consumer goods, areas that have been sluggish during the recession.

The growth in exporting sectors helped Luxembourg to reduce its trade deficit slightly in 1984 to about 22 billion francs from 1983 levels, which had dropped to 24.7 billion from 22.6 billion in 1982.

This trading balance, which has been negative since 1975, continued, however, to be tilted in its favor by a hefty surplus in the services sector, primarily from placement and investment income generated by Luxembourg's many banks.

As well as banking, tourism tends to compensate for the trade deficit, and Luxembourg usually notches up a healthy surplus on its current-account balance of payments. Last year was no exception, and the surplus in 1985 is forecast by the OECD to remain at around 25 percent of gross domestic product.

Banking-sector activity, while remaining a key plank in the government's platform of economic redress, is beginning to show signs of flattening out. The period of staggering growth, which, according to the OECD, averaged an annual 16.5 percent expansion in volume between the 1970s and 1981, has slowed.

Diversification into new markets and institutions has played its part in consolidating banking activities, although with a share of more than 26 percent in gross domestic product, banking, insurance and finance combined almost rival that of industry's 29.5-percent share.

Bank profits before provisions, after climbing in the early 1980s, peaking in 1983 at 68.7 billion francs and dropping to 67.9 billion in 1984, still account for a sizable chunk in tax revenue to the Luxembourg authorities, without which the Finance Ministry would find it harder to balance income and expenditure.

Moreover, as Banque Internationale à Luxembourg noted in its 1984 annual report: "The partial redirection of the activities of the Luxembourg financial center has benefited employment in the banking sector, which increased once again in 1984, going up by 358 to reach a total of 9,382 persons employed in December."

The numbers employed in the banking sector represent almost six percent of the grand duchy's total employment, compared with just 3.7 percent in 1974.

Curbing unemployment and bailing out the steel industry have left their dents in the grand duchy's public finances. As government officials concede, the rescue plan is the principal reason behind the budget deficits seen in recent years.

"Had it not been for additional expenditure pumped into restructuring the steel sector, the

final 1983 budget might even have shown a 3-billion-franc surplus instead of the 2-billion deficit that turned out," a Finance Ministry official said. In fact, the 1984 budget returned a slight surplus.

Strict budgetary control has been one of the watchwords of the former government, and the present administration, under the continued stewardship of Mr. Santer, is maintaining this course, submitting a draft 1985 budget that projects a small surplus of just under 1 billion francs.

The government will need all the revenue it can get in the future, committed as it is to a policy of industrial diversification without selling out the steel industry. To achieve this, it is maintaining temporary indirect and direct taxes first imposed in 1983 until the steel sector is back on the right tracks.

Since 1976, the grand duchy has followed an ambitious program to attract new industries in sectors ranging from high technology to aluminum. As of the end of 1984, nearly 4,000 new jobs had been created by some 58 firms taking advantage of tax breaks and good industrial locations to set up plant in Luxembourg.

The figures, although small in relative terms, count for much in a small country of 999 square miles (2,588 square kilometers), where about 2,780 unemployed make up 1.7 percent of the labor force and where "smallness" has never proved a handicap in coming to grips with pressing economic and industrial problems.

A SPECIAL REPORT ON LUXEMBOURG

Do Funds Prefer Home-Style Haven In Grand Duchy?

EDINBURGH — When international fund managers or investors are comparing havens, Luxembourg can lose out despite the strength of its bank secrecy laws. Other factors — ranging from a slow administration to high fees, from differences in legal systems to memories of past scandal — often get in the way of Luxembourg's attractions.

To quote one fund manager, whose group has domiciled several funds in faraway Caribbean islands, he has rejected Luxembourg because "all I get is harassment. They are nippers and make life miserable because they want Luxembourg to be taken seriously, and not just to be treated as a tax haven. Yet when we really need authorities, as in the Ambrosiano case, they were not there, and told us 'we are only a haven.'"

While this fund manager is perhaps harshest of all about Luxembourg, other British managers funds also have had difficulties with Luxembourg. John Wood, lawyer for the fast-growing Dundee fund management company in Edinburgh, explained why his group's offshore preferences are Bermuda and Guernsey: "They are reasonably close to our standards because the legal systems follow ours. You can't even have a 'unit trust' in Switzerland and I am not sure we would find a Luxembourg SICAV as attractive." A SICAV is a closed-end fund which is publicly quoted in Luxembourg, but, unlike British investment trusts, it is redeemable at asset value, not the quoted price.

Another problem Mr. Wood cited is the "sheer legal costs, costs of maintaining a quiet, costs of prospectus."

Mark Adam Parkin, whose Foreign & Colonial Management Group is the oldest operator of investment trusts in the world, has three offshore funds — for Europe, Asia and America — operating out of Luxembourg. Yet Mr. Parkin's group decided not to use Luxembourg as the domicile for its new money-market and bond funds, and set up in Jersey instead. These funds allow investors to switch from one currency to another and from long- to short-term. "Luxembourg couldn't do a multiclass share structure because under their country law it meant a long, drawn-out affair, we were told by our lawyers there," (Elvinger & Hoss),

Mr. Parkin said. "Our attitude is that if it was going to be that difficult, we didn't want to bother."

Another British fund manager said he thought that "getting a listing on the London stock exchange is easier to achieve than a listing in Luxembourg, and means more to me." Channel Islands funds allow British corporate tax refunds to be claimed. Being a telephone call away means that local staff can be kept to a minimum, cutting costs. Mr. Parkin said that he also feels that the secrecy and bearer shares of Luxembourg create a problem for fund managers who "do not know who the shareholders are." Not only is there danger of problems with the U.S. Treasury over the bond fund — which can only be sold to non-Americans — but also "we can't use the share register as a marketing tool." To Mr. Parkin, too, "it is an unclear grey area if Luxembourg counts as a recognized stock exchange if we want to market funds in Britain."

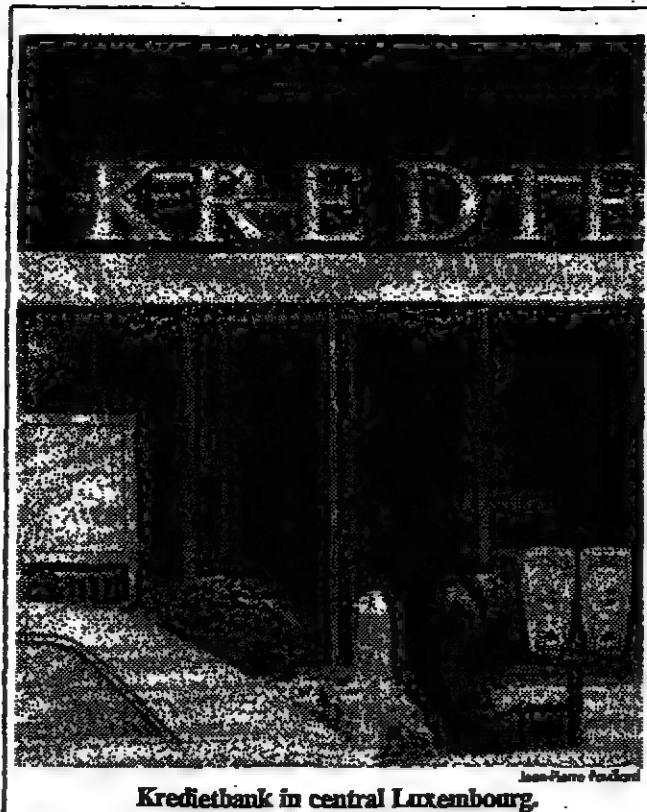
Yet, for others, the Luxembourg tradition of bearer shares and its recent secrecy law are an attraction. And because Luxembourg is in the Common Market — which the Channel Islands are not, Japanese institutional investors may buy Luxembourg funds, but not Jersey or Guernsey ones.

When Capital Preservation Fund was going international from its Palo Alto, California, home, it decided to put the offshore fund in Luxembourg to tap the Japanese institutional market. And for marketing reasons too, the U.S. managers preferred to be within the EC for its Capital Preservation Fund International.

Luxembourg has a better image than most island havens. "Luxembourg is the only EC tax haven," according to Seth Bernstein of Capital Preservation.

When Crédit Chimique of France was seeking a site for its innovative open-ended mutual fund (denominated in European Currency Units, or ECUs), Luxembourg, which is an important market for the composite currency, was considered. But, according to fund manager Xavier de Baysier of the Paris bank, another advantage of Luxembourg was that "unlike Jersey, we could set up a SICAV in Luxembourg. In Jersey we would have had to set up a mutual fund."

By using the SICAV model, the operators of the ECU-denominated



Kredithbank in central Luxembourg.

ed fund, which is called Monceau-Europe, can opt whether or not to redistribute income; if it is not distributed to shareholders it can be reinvested automatically, thereby giving the fund an assured rate of growth as long as it performs well. Then too, as Mr. de Baysier explained, "it is possible to have a client in overdraft with the SICAV." In effect, the fund, which is aimed at corporate treasury and institutional accounts, will lead to shareholders who may have a short-term deficit in their accounts. Many U.S. money market funds also offer this option.

Another French fund likes Luxembourg precisely because of its stock market link. U.S. or U.K. authorities do not allow prices of funds to be set by the managers — on the basis of net asset value — at the same time supply and demand are working. Under U.S. or British law, closed-end quoted funds often are quoted at a discount because fund managers cannot themselves operate to regulate the listed price, as they do in Luxembourg. Still, being quoted is a marketing tool.

"Individuals cannot be solicited to invest in our fund in Belgium or in Germany," said Jean Pierson, fund manager of Cortez, International, a Luxembourg fund run by France's Paribas group. "But quotation gives us access to our actual and potential clients in those countries." His group considered setting up in Switzerland rather than Luxembourg when the fund was set up in 1980: "What we did in three months would have taken us two years in Switzerland," he said.

Another Luxembourg advantage is that Luxembourg companies or

holdings are "a collateral base which you can borrow against," according to Gilbert de Botton, chairman of Global Asset Management, which has yet to benefit from that advantage. "This is not the case for holdings in Liberia or Panama." GAM has three funds each in Bermuda, Bahamas and Curaçao, plus six British funds, but none so far in Luxembourg.

British Investment Trusts may and do borrow to provide capital to increase investments for their shareholders.

Legally, U.S. citizens cannot seek Luxembourg fund ownership. Americans are not allowed to purchase funds whose prospectuses have not been approved by the U.S. Securities and Exchange Commission. However, most Luxembourg funds will accept such investments, on condition that the paper trail is not direct; that means a check from a non-U.S. bank, a foreign address, a cut-out. The only exceptions are funds aimed specifically at foreign purchasers of Treasury bills, like the Luxembourg Capital Preservation Fund, or, for that matter, the Jersey Foreign & Colonial Reserve Asset Fund Ltd.

For Americans to hold such Treasury-bill funds not only violates securities laws, it also is tax evasion — an even more serious offense when the funds are buying U.S. Treasury paper. Tax evasion, however, is why many investors go offshore in the first place, so for more widely-invested funds, there is a tendency to not question the investor too closely on his national-ity.

— VIVIAN LEWIS

The Incentive System: More to Come

LUXEMBOURG — With its secure position among the world's leading financial centers, Luxembourg has learned to fine-tune its incentives to the rapid shifts in global borrowing and lending patterns.

With new investment instruments springing up through deregulation and liberalization, the grand duchy's 117 banks cannot afford to fall behind in the race to offer customers the best terms.

"Our policy is, and must be, to develop special opportunities and to find special niches," said Jean Krier, general manager at Banque Internationale à Luxembourg, one of the country's three big domestic banks.

The escalation in the number of new investment vehicles, while offering clients a wider spectrum of funding possibilities, also has its inherent dangers in the threat of overshadowing more orthodox but tried and tested instruments.

Luxembourg-based bankers, in recent interviews, insisted that the general policy of banks operating in the grand duchy lies in fashioning an alliance between the more traditional financial incentives available to customers and the new instruments emerging on the world's financial markets.

In Luxembourg's special case, the key element of its emergence as an international financial center was the ability to mold its market place to suit the shape of the forming Eurobond market and Euroconsolidated during the early 1960s.

In fact, the name of Luxembourg became synonymous with Eurobonds.

"As far as, at least, the initial stage of development of this banking center is concerned, I

believe that it is intimately tied to the birth of the Eurobond market, particularly, the Eurobond market," Edmond Israel, executive board member of Banque Internationale à Luxembourg, said.

The incentives for Eurobonds were already in place in the grand duchy: the absence of any withholding tax on interest paid on foreign bonds out of Luxembourg; a stock exchange designed from its creation in 1929 as a vehicle for the listing and trading of international securities; and the presence of a number of banks with the expertise to act as paying agency and safe custodian of international securities.

The incentives were in part responsible for the development of the Eurobond market from a total issue volume of barely \$300 million by 1963 to a cumulative total of nearly \$300 billion by the end of 1984.

The compulsion to move with the times and to keep abreast of new developments by constantly ensuring that the right incentives remain in place has helped to keep Luxembourg in the top league of players in the Eurobond market.

However, the task is arduous. Luxembourg's market share in Eurobond issues, after slipping to 16.3 percent in 1982, has regained a firmer footing over the past two years, rising to 24 percent in 1983 and 21 percent at the end of 1984.

In terms of total deposit volume in Eurocurrency, Luxembourg's market share has shrunk from a peak of 11.4 percent in 1979 to a present 8 percent, though the rapid rise of the dollar against the Deutschmark — in which almost 40 percent of Euroloans extended by Luxembourg

banks are denominated — has played its part in whittling down the proportion, bankers said.

A potential threat to the incentives offered by Luxembourg in its role as a Eurobond market player — the abolition by the United States last year of withholding tax at source on interest payments to U.S. nonresidents on securities — in fact failed to materialize.

Whereas the American regulations required U.S. securities to be issued in the name of the holder, Luxembourg's strict bank secrecy laws continued to ensure that European investors enjoyed anonymity in their transactions, often a vital ingredient and powerful incentive in investment portfolio management.

This absence of any noticeable funds moving out of the grand duchy following the U.S. relaxation, which was quickly followed by similar moves in West Germany and France, appears to suggest that the incentives Luxembourg offers in its handling of Eurobond business are strong enough to withstand the pressures of officially sponsored liberalization and bank deregulation sweeping the major financial centers.

Incentives, apart from the official tone of liberal banking prevailing in Luxembourg, also embrace the policies individual grand duchy banks pursue to win and maintain customer confidence in the attractions of using Luxembourg for placement and funding purposes.

For example, the growth of the European Currency Unit and the Luxembourg franc into major investment vehicles over the past two years has been the result of a concerted effort by

(Continued on Next Page)

Scoring Top Points in Secrecy Debate

(Continued From Page 9)

cret bank records in a civil law suit.

Similarities outweigh differences. Both codes are the only ones in Europe that provide punishment by prison and fine to any bank officer or employee who knowingly divulges information about a deposit.

In Switzerland, the penalty is six months prison and a fine of 50,000 Swiss francs for a knowing breach and 30,000 for an inadvertent disclosure. In Luxembourg, it is eight days to six months in prison and a fine up to the equivalent of 50,000 Swiss francs. In both countries, the offending depositor may also seek damages in a civil suit against the offending bank employees.

In commercial disputes under civil law, whether conducted in Luxembourg or abroad, the Luxembourg banks are under no obligation to provide information on clients except in cases of bankruptcy and attachment. In Switzerland, much the same procedures apply, although different cautions have varying obligations for providing information in civil suits. In matters of death and inheritance, the Luxembourg banks are not com-

pelled to disclose the value of foreign-held accounts to survivors. In Switzerland, by comparison, the banks are compelled to give an accounting to the lawful heirs.

Criminal procedure is almost identical in both countries. If the depositor has been charged with a felony, either in a local or foreign court, the banks can be commanded to lift all secrecy from the account of the accused. In the event of proceedings in foreign countries, however, both Swiss and Luxembourg banks reserve the right to determine whether the proceedings stem from a truly criminal act or whether political motivations are decisive. In the latter event, both countries reserve the right to refuse to allow their banks to cooperate.

In tax matters, Luxembourg and Swiss practices part company. In principle, both countries seek to resist the intrusions of foreign tax authorities and recognize only serious tax fraud, and not mere tax evasion, as a punishable offense. However, while Luxembourg remains undisturbed by pressures from foreign tax authorities, Switzerland for years was subjected to harsh demands by major neighbors and the United States to bar its

access to its banks to tax evaders and purveyors of flight capital. These pressures reached such crescendos with the United States in the late 1970s that Washington authorities were threatening to close down Swiss banking operations in the United States unless the Swiss cooperated with U.S. tax authorities.

Faced with such penalties, the Swiss prudently decided to negotiate a treaty on mutual assistance in criminal matters with the United States. The pact went into effect in 1977. Since then, the Swiss have taken a whole range of legal actions that, in effect, authorize Swiss banks to cooperate with foreign banking and legal authorities in combating the misuse of Swiss banking by criminal elements abroad. One part of this movement has been an agreement among Swiss banks to refrain from accepting money either from a depositor or a fiduciary agent unless the bank can determine the true origins of the funds and the actual beneficiary of the deposited money.

Swiss bankers contend that these measures by no means represent a dismantlement of Swiss banking secrecy. Instead, they argue, such

measures are a guarantee that Swiss secrecy will remain strong and durable. Their explanation is that if Swiss banks allow their rules on confidentiality to be used by criminals and tax fraud perpetrators, both the Swiss populace and the international banking community will become so distrustful and enraged at Swiss banks that they would lose their position of trust both at home and abroad.

And in that case, what will be the value of banking secrecy? The answer, of course, is none. Although Swiss bankers are far too discrete to allow themselves to be quoted on the issue of Luxembourg's claims, they do say, off the record, that Luxembourg can indulge in the luxury of crowing about its secrecy only because it is a relatively small financial center that has not come under the same stresses as Switzerland.

Furthermore, they point out that the crucial difference between Swiss and Luxembourg banking secrecy law is that Luxembourg law has not yet been challenged. If put to severe tests, the Swiss suggest, the Luxembourg might also be compelled to come to compromises.

AN
ESTABLISHED
COMPETENCE

Deviating from the norm to achieve the exceptional.

$$\sigma = \sqrt{\sum x^2 / n}$$

Behavioral scientists constantly confront the infinite diversity of human capabilities. To test abilities and aptitudes, scientists rely on the normal curve and its most important property, the standard deviation.

At Nikko, our experience indicates that the curve for international investment banking shows a large standard deviation, depicting great dispersion and heterogeneity of abilities. And we believe our capabilities place us at least two or three standard deviations to the right of the mean.

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amounting to ¥690 billion during the past year. We are a leader in the growing market for government securities in Japan, functioning as an underwriter and providing liquidity for investors worldwide.

And we are gaining access to international capital markets for Japanese companies both large and small, managing or co-managing 106 securities offerings during the past year that raised far more than \$4 billion.

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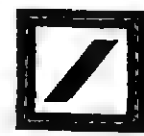
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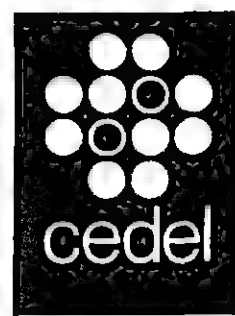
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A SPECIAL REPORT ON LUXEMBOURG

Electronic Trading Highlights Wide Diversification of Funds

LUXEMBOURG—Spurred by deregulation and competition in the world's major financial markets, traders and dealers operating out of Luxembourg are not alone in learning that earning a living by lightning reflexes and razor-sharp wits no longer suffices to stay one step ahead.

Dealing in different time zones, swapping in and out of currencies at the drop of a dime, covering forwards and hedging spots, connecting currency cocktails and fixing bond prices at a moment's notice for the right customer at the right time—dealers are the lifeblood of banks.

But they also need arteries along which to flow. The Luxembourg market, like its counterparts in New York, London, Zurich and Frankfurt, has become aware of the need for electronic and computerized trading systems to act as conduits for the efficient channeling of funds.

Euroclear and Cedel, the two international clearing houses for Eurobond trading, are well and long established in the art of using high-powered centralized computers to process clients' transactions and communicate directly with trading rooms.

Now individual banks are gearing their technical resources increasingly to the concept of an integrated electronic trading room, where information systems, communication modules, data flow and trading instruments combine in a single package for the dealers.

Skandinaviska Enskilda Banken (Luxembourg), the Luxembourg subsidiary of the Swedish parent, is the latest in a line of Luxembourg-based banks to introduce a fully computerized in-house system to combine all its electronic resources at the disposal of its trading operations.

As well as linking access to a continuous flow of instantly updated information and news from such outlets as Reuters and Teletype, the two computers at Skandinaviska calculate, process and amend in split seconds complex arbitrage, spot and forward quotations of all major trading currencies and their counterparts on the Euromarkets.

The Luxembourg system is also linked to the major computer network at Skandinaviska's Stockholm headquarters, providing instant communication with its central trading room.

"We're happy with the system as it provides us with a fast and efficient means to best service our international clients," said Gunnar Olsson, managing director of Skandinaviska's Luxembourg operations.

tems vary from bank to bank in Luxembourg, they have in common the aim to improve, diversify and streamline their trading operations. Speed, refinement and diversification are the essential elements in the picture making up Luxembourg's rapidly changing trading patterns.

Bursting out of its traditional mold as a purely Eurobond center, where commercial banks mainly went about the business of arranging syndicated credits, Eurobonds and traditional interbank transactions, Luxembourg

The Luxembourg market has become aware of the need for computerized trading systems to act as conduits for the efficient channeling of funds.

has sought to diversify more into the fields of private banking.

With this development, a shift in emphasis has also taken place on the trading-room floor. Instead of focusing resources primarily on interbank market transactions, acting on behalf of large corporate clients, sovereign borrowers and institutional investors, banks are also offering trading services for the individual clients.

A multitude of trading instruments are available for Luxembourg banks—and indirectly their clients—to choose from.

The spectrum ranges from orthodox currency-related vehicles such as floating-rate Eurodollars, European Currency Unit, certificates of deposit and Deutschmark-denominated Eurobonds, to more complex deals on the commodities and precious-metals markets, as well as in the options and financial futures areas.

As one dealer at a West German bank in Luxembourg commented: "If it moves, trade it."

The escalation of the number of trading vehicles has opened up new financial possibilities, often blurring the traditional contours of banking and merging to entice the borrower and lender to take or place funds.

"While the benefits to the individual customer are numerous, it has become a difficult task simply to choose from one menu of trading delicacies now on offer," a Luxembourg banker said.

One of the leading players in the Luxembourg trading arena is Ban-

que Internationale à Luxembourg. Now in its 129th year of operations, it has built up an established track record in all the principal markets on tap in Luxembourg.

It participated as agent for the first Eurobond issue, a 5.5-percent, \$15-million bond issue for Italy's Autostrade, which launched the Eurobond market in 1963, now grown to reach a record new issue volume of \$77.1 billion equivalent at the end of 1984.

It has also been prominent in the emerging ECU and Luxembourg-franc markets, with the bank's general manager, Jean Krier, noting that one of Banque Internationale's prime aims was to increase the proportion of the bank's management, either as lead manager or co-manager, in the Eurobond sector, particularly in the ECU market.

Commenting on the Eurobond market in 1984, the bank's annual report for last year stated: "As in the two preceding years, we obtained our best results in the ECU sector."

"Luxembourg banks have participated more and more actively in the arrangement, and in the management, of ECU issues," Mr. Krier noted in a recent interview, citing as an example Banque Internationale's lead management of a 35-million-ECU eight-year issue at 9 percent for the international finance arm of Philips, the Dutch electronics firm. This was the first of its kind for a large European industrial company.

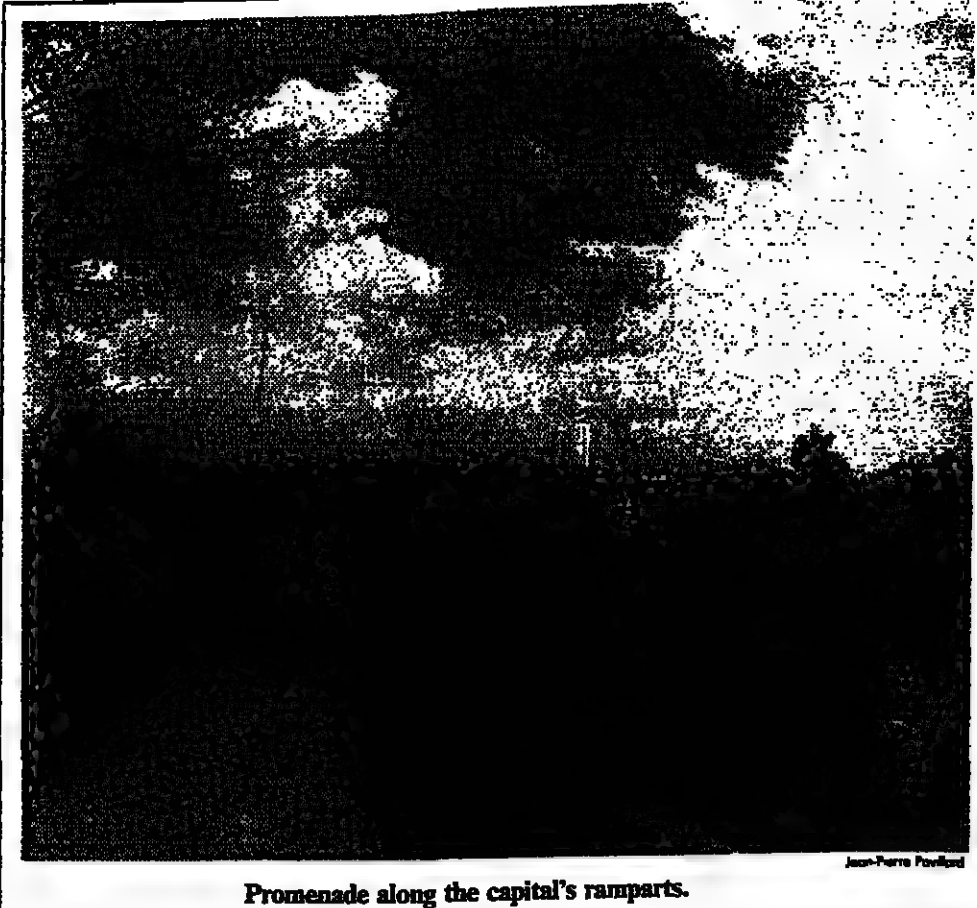
On the Luxembourg-franc bond market, Banque Internationale managed five public issues and, in addition, was joint lead manager for five other issues, as well as arranging three private placements.

The list of Euroissues in which Banque Internationale held a market increased to 208 in 1984, comprising 118 issues in dollars and 90 issues in ECUs.

It, together with the other domestic Luxembourg banks, also increased its activity in the secondary markets of the Eurobond sector, engaging in the underwriting and placement of these bonds as well as trading of these securities on the secondary market.

The Luxembourg stock market also provides a forum for trading in Luxembourg. In 1984, it had hitherto unmatched intense activity, in particular on the primary market. According to official figures, the number of admitted quotations reached 519 last year, compared with 351 in 1983, including 469 loans, 36 investment funds and 14 stocks.

Trading volume grew by a total 18 percent in 1984, with fixed-rate securities up 17.3 percent on 1983 levels, while turnover in



Promenade along the capital's ramparts.

stocks, investment funds and share certificates rose 20.7 percent.

The official Luxembourg stock-market quotation comprised 2,712 securities at the end of 1984, compared with 2,070 at the end of 1983, representing more than 1,000 issuers from 70 countries, and the figure of 3,000 listings in securities is expected to be exceeded during this year, share analysts forecast.

New Luxembourg-franc bond issues admitted for quotation last year totaled 14, amounting to 11.2 billion francs, the highest total ever.

Trading in Luxembourg, then,

has broadened and deepened its range of activities, particularly as the diversification into private banking has grown to open up new horizons in bank strategy and management.

Bonds, for example, can either be viewed as a long-term investment, resting in the books of banks on behalf of individual clients, or they can be placed in the trading portfolio of the individual bank, trading on a regular basis on the secondary markets available in Luxembourg.

Portfolio management, covering anything from short-term deposits,

certificates of deposit, corporate and government fixed-interest bonds to floating-rate notes, convertible bonds and common stock, can be geared to meet the individual customer's needs by trading the investments on all the major stock exchanges, including that of Luxembourg.

By switching the funds generated by the investments from one market to the other, not only is the rate of return assured for the investor in most cases, but also the bank transacting the trading stands to gain in commission and fees.

—MICHAEL METCALFE

The Duchy Makes Lëtzebuergesch Official

(Continued From Page 9)

Digest, and a junior-year-abroad program run by Miami University at Oxford, Ohio. And there is a "proletarian novelist," Guy Revening, according to a promoter of Luxembourg culture and language, Jul Christophery, the National Library director. About 250 books are published each year in the grand duchy (not counting EC paperwork) and about 15 or 16 each year are in Lëtzebuergesch.

One of Mr. Christophery's own articles, republished in 1978 in his collection of essays, "The Luxembourgers in Their Own Words," attempted to show the affinities between Lëtzebuergesch and English, which occur often where a corresponding New High German word does not exist. Cap, ham, plow, oats and cabbage head, claw and wick (more or less) sound the same in Lëtzebuergesch.

Other English borrowings in-

clude Gillette (for a nonelectric shaver) and buggy (for a railroad car). Yet, as Mr. Christophery admits, these similarities are not proof of a common linguistic heritage so much as accidents.

In areas formerly ruled by the grand duchy, and stripped away by avaricious neighbors (like Louis XIV or Leopold I of Belgium), dialects related to Lëtzebuergesch are still spoken in the countryside today. In Thionville, France, a group of parents have chosen to educate their children in something they call *frankique*, which they are the first to admit is nothing but Lëtzebuergesch. Half of the Belgian province of Luxembourg still contains people who speak Lëtzebuergesch.

The German natives of Rhineland-Westphalia, to a point somewhere to the east of Bittburg, also speak a variant of Lëtzebuergesch. Had President Ronald Reagan and

Chancellor Helmut Kohl but known, they could have opted to avoid visiting Bittburg's now-notorious cemetery for fear, not of SS graves, but of offending Luxembourg irredentists.

To quote the Lëtzebuergesch epic, "Renert," by Michel Rodange (published in 1872), most Luxembourgers would not want to trouble their neighbors:

*Blous dat, wat brengt en Nozen,
dat hale mir fir weis;
Framous och beim Champagner,
beim Rhäinwäin si mer Freis.
Or, in Mr. Christophery's translation:*

*Only that which increases our stock
We do think wise and humane;
Although French when sipping champagne,
Germans we are when tasting hock.*

—VIVIAN LEWIS



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The Crown Prince Is Also A 'Financial Ambassador'

LUXEMBOURG — Prince Henri, crown prince of Luxembourg and duke of Nassau, is also the grand duchy's financial ambassador.

The prince, as chairman of the 12-member Board of Economic Development for the past two years, promotes Luxembourg's business and banking attractions abroad.

"It is difficult for a small country like ours because we are small and can't be present everywhere, so we need the help of local friends," Prince Henri said in an interview.

He said Luxembourg was "aiming mainly at two countries, the United States and Japan." He recently visited the United States, Japan and Sweden. The board has offices in New York and Tokyo.

The second U.S. office will be in California, because California is a place where business is being

done," he said. "We haven't decided yet if it will be in Los Angeles or San Francisco."

The board aims to bring new diversified investment to Luxembourg. "We are interested in financial investment," the prince said. "Luxembourg is known as a financial center. But, we can't be totally dependent on finance, just as before the 1970's we were totally dependent on steel. So, we are trying to diversify, in attracting industries also."

"We are trying to attract smaller high-tech and even low-tech industries. We are seeking electronics and biotechnology companies both in the United States and Japan."

The prince, who is 30, graduated with honors in political science and economics from the University of Geneva.

"There is nothing unusual about my role because many other monarchies are doing the same thing," he said. "I am thinking of



Prince Henri of Luxembourg

Albert of Belgium or Henrik of Denmark. It is normal that I should play a more active role in promoting my country. And be-

ing royal opens doors. After all, people are interested in seeing what a prince is like." — VIVIAN LEWIS

Time Off: Vianden's Window on History

VIANDEN — "Before long, the whole of Europe will visit Vianden, this jewel set in its splendid scenery, characterized by two, both comforting and magnificent elements: the sinister ruins of its fortress and its cheerful breed of men," Victor Hugo wrote in 1871.

An international banker visiting Luxembourg, with a few hours' respite will find it easy to hire a car and make the 30-kilometer (19.6-mile) trip to Vianden.

The proximity of this little town, made famous by Hugo, who was exiled there, lends itself readily to the kind of excursion that a tight-scheduled business trip could allow.

The house where Hugo lived from June 8 to August 22 still stands, housing the poet's furniture, letters, documents and sketches of that time.

Even if this town of 1,500 inhabitants cannot boast the whole of Europe on its doorstep, it has its fair share of visitors, proving one of the biggest tourist attractions in the grand duchy.

Nestling on a bend in the river Our, looking out on valley slopes speckled with vacation cottages toward the border with West Germany, Vianden resists comfortably in the lap of the forested Ardennes-Eifel region.

Despite the small electronics companies and a huge hydroelectric power station complex on its outskirts, the 1,000-year-old town's largest single source of income is tourism.

The lack of large-scale industrial development has preserved the charm of the site, studded with medieval houses and churches in hues of brown and yellow.

Spring is a good time to stroll through the quiet streets around the 10th-century castle, perched on an outcrop of rock overlooking the town.

Below the fortress is the Squat Tower, its crumbling battlements dating to the 12th century, and below that winds the Grand Rue, the main artery of Vianden's historic old town, lined by a crooked row of houses once owned by the local nobility.

The town hall, dating from 1469, is one of the oldest of these houses still standing, while another houses Vianden Museum, displaying furniture, utensils, tools, ornate chimney-pieces cast in the 16th and 17th centuries.

The Grand Rue also has an apothecary shop of 1475, lined with stone mortars and pestles, scales, burners and bellows used to concoct Medieval brews.

On this street there is also the Church of the Holy Trinity, which, in the early Gothic style of 1248,

with its wooden altar carved in 1758 by three local artisans.

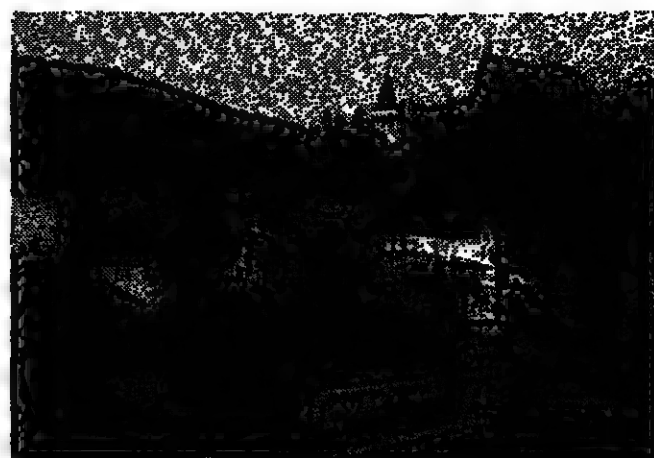
Other attractions in the old town include a former plague chapel now used as a sacristy and the Church of Saint Nicholas with its fine baroque altar and cross-ribbed vault of late Gothic design.

A reminder of less peaceful times is the town's new bridge across the Our, built in 1949 to replace the old stone bridge blown up by German troops as they retreated from General George S. Patton's U.S. Third Army in the closing stages of World War II.

Now, 40 years later, small groups of American and German veterans stroll through the streets of Vianden, reliving past campaigns, defeats and victories over krugs of local beer and bakers of ice-cream.

But it is the castle at Vianden that overshadows all. The largest and best-restored of Luxembourg's myriad medieval fortresses, the stronghold's oldest parts date to the 10th century.

During its 1,000-year history, the castle has witnessed wars, fires and



The castle at Vianden.

earthquakes, exchanging hands numerous times until 1820, when its then owner, William I, King of the Netherlands and Grand Duke of Luxembourg, put it up for public auction, seven years later to be classified as a ruin.

It was ceded to the state by the

present Grand Duke Jean in 1978, and systematic reconstruction has restored a large measure of the castle's former austere splendor, while bringing it up to date with facilities such as a concert hall, conference center and exhibition area.

—MICHAEL METCALFE

Taking One's Time With the Local Cuisine

LUXEMBOURG — A Luxembourg proverb notes that "Good cuisine is quickly eaten up, a bad one even more rapidly." With their food, the Luxembourgers know how to take their time.

At the confluence of two cultures, French and German, Luxembourg cuisine combines the finesse of French cooking with the ample portions of German fare.

Visiting businessmen and international bankers coming to Luxembourg like to frequent three of the grand duchy's main restaurants — Saint Michel, Clairefontaine and Au Gourmet.

All of them share the attraction of good wine cellars, collected over several decades, and a cuisine that holds its own with some of the best in neighboring France, Belgium and Germany.

The ambience at these restaurants, especially at lunchtime, is conducive to bankers' banter; the surroundings are tranquil but the service is speedy, efficient and unobtrusive. Although a large proportion of their clientele is made up of bankers in transit, the restaurants are also frequented by resident Luxembourgers and the large international community from the multinational organizations that are based there.

The menu, particularly those catering to the lunchtime business

crowd, is light but substantial, with heavy sauces and filling dishes kept to a minimum.

According to Gault Millau, the magazine on French cuisine, Luxembourg fare is "sturdy, honorable and just a little on the conventional side."

If there are national dishes of Luxembourg, just as snails and coq au vin are associated with France, steak and kidney pie with Britain and schnitzel with Germany, then a good place to find them are at Restaurant du Commerce in the old section of the city of Luxembourg.

Located on the leafy Place d'Armes, where brass bands play and Luxembourgers promenade, the restaurant is full of overflowing at lunchtime. Smoke and the smell of pork cooking hang heavy, while sturdy and burly locals dine.

The portions are huge and leave little room for deliciously light pastries and quiches tartes. Specialties of the house are pork dishes, certainly the national meat of the grand duchy.

Official statistics show that the Luxembourg consumes yearly an average of 7.5 kilos (16.5 pounds) of butter, 83 liters (22.1 gallons) of milk, 57 kilos of bread, 25.2 kilos of beef, 6 kilos of veal, 42.5 kilos of pork, 129 liters of beer and 41.3 liters of wine.

One of the country's fish special-

ties is truite farcie Grand-Duchesse, stuffed trout in a wine cream sauce, served with a dry Luxembourg white wine, such as a 1982 Wormeldange Nussbaum riesling.

Saint-Michel, run by Pietrick and Lysiane Guillou, carries the distinction of being the only Luxembourg restaurant awarded two stars in the French Michelin guides, with no one Luxembourg eating place accoladed the maximum three stars.

Located on a bend in the narrow, winding Rue de l'Eau, Saint-Michel offers excellent trout and salmon more in the tradition of French cuisine than that of Luxembourg fare.

The same applies to Margot and Tony Tintinger's Clairefontaine, which opened last November in a restored and refurbished former merchant's house facing Notre-Dame Cathedral. Their fish specialties include trout and sole.

The third establishment, run by Mrs. Jules Werner, is a more traditional restaurant in a house dating to 1673, located just behind the Place d'Armes.

Furnished with dark oak paneling and plush claret-red velvet, Au Gourmet over the past 40 years has offered its clients a sedate setting for a seasonal blend of domestic and French-inspired dishes, ranging from local jellied pigs trotters to

Burgundy stails, from truite aux herbes fraiches to l'entrecote au Roquefort.

The trout, clean and white-fleshed, is served on a bed of green herbs, including parsley and chervil.

A crisp white local wine, either of the Elbling or Rivaner variety, provides a natural complement to the dish.

According to Pol Tousse's cookbook, "Le Livre de la Cuisine Luxembourgeoise," published in French and German by Verlag Wolfgang Hoecker in 1980, pike is also ascribed a worthy place in Luxembourg cooking.

Tradition has it that in the first half of the 18th century, Grégoire Schoupe, Abbot of Echternach on the Luxo-German border, dispatched two of his monks on a spying mission to the monastery at Orval, which had gained a name for superb fish recipes, according to Mr. Tousse's book.

Pike was also used ground up and added to warm beer to cure fever among the sick, the author adds.

If all this does not strike your fancy, Luxembourg also offers red meat, including jagged hare during the hunting season, and calf's liver dumplings served with sauerkraut and potatoes.

—MICHAEL METCALFE

Banking: In Search of Brand Image?

(Continued From Page 9)

data from the Institut Monétaire Luxembourg.

Even the European currency unit, an instrument invented in Luxembourg, is beginning to outgrow this marketplace. Last month, an institution not even present in Luxembourg, Crédit Suisse-First Boston, lead managed its first ECU bond, 200 million for New Zealand. Paribas placed an ECU issue for an Australian bank with Japanese investors through its Hong Kong office. Credit Suisse's London branch, the fastest-growing ECU dealer, has turned away the chief ECU bond dealer of the leading Luxembourg ECU house, Leon Kirps of Kredietbank Luxembourg.

In 1983, Luxembourg will not match its 1984 success with the ECU — its bank being in the syndication of every issue in the composite currency, its stock market listing every single new public issue.

To make up for its sinking share of Eurobond business, the authorities are trying to make this a fund-management center. Under a two-year-old law, there are 132 Luxembourg mutual funds, with just under 400 billion Luxembourg francs under management. Luxembourg has twice as much mutual funds money now as two years ago, before the law was passed — and mutual funds had to be incorporated under the old holding company law.

Yet, the largest Luxembourg funds are losing place to competition from their home market. The dominant mutual funds here are Italian, and under a new law, Italian investors can buy mutual shares at home, something they are doing in overwhelming numbers. According to Sole 24 Ore, a Milan publication, Italians had already invested 1.165 trillion lire in 25 newly established domestic mutual funds by the close of 1984. Since then, through the end of April, the Italian investment in domestic mutual funds has increased fivefold in four months, to top 6.663 trillion lire.

The effect has been to diminish the amounts available from Italy for investment in Luxembourg funds. The leading mutual fund group from Italy in Luxembourg, operated by Istituto Mobiliare Italiano, managers of Fonditalia and Interfund, alone accounts for half the total invested in Luxembourg mutual funds, \$1.2 billion at the close of 1984. Since then, with the rush to invest in domestic funds, the Mobiliare's Luxembourg mutual funds have actually had a decline in their volume of managed funds.

But for the Mobiliare's funds, as for most other "money managers" in Luxembourg what is happening in the grand duchy is mostly administration. Research and deci-

sions on where to invest money are done at home or in a third country with the investment analysts that Luxembourg lacks.

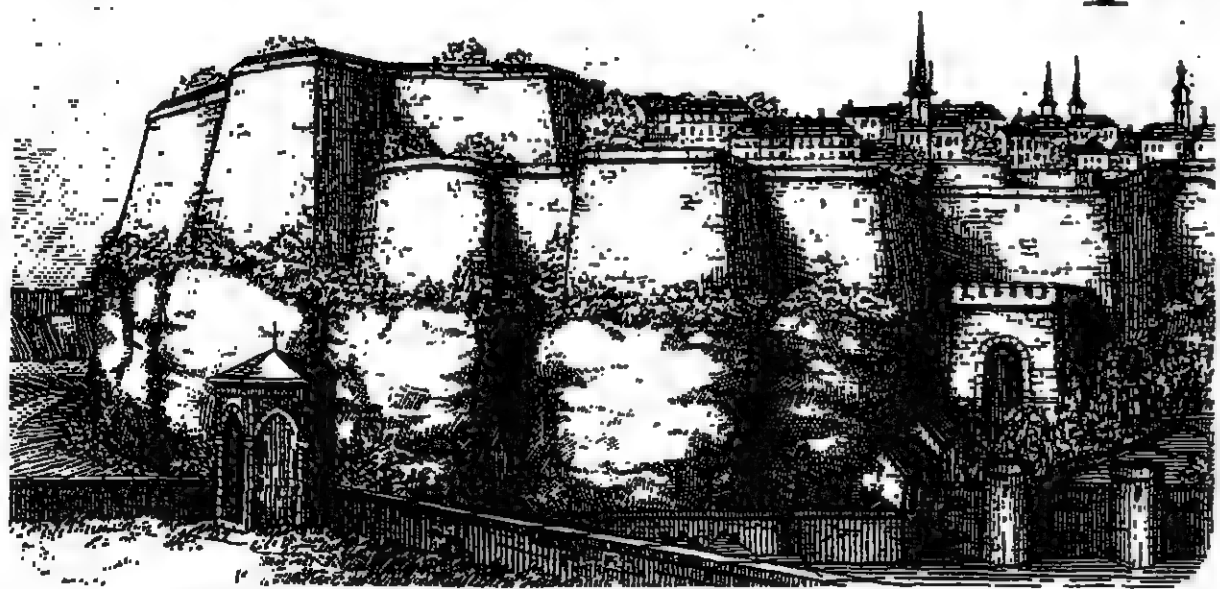
Yet, while active portfolio managers are still thin on the ground in Luxembourg, there are some signs that some of the personalities you expect in an international banking center are coming to the mini-country. Although regulation is still hampered with a light touch by the Institut Monétaire Luxembourg — a sort of combination of the U.S. Federal Reserve, the Comptroller of the Currency and the Securities Exchange Commission — that body is growing.

Now that Luxembourg has hired opinion pollsters, their findings are to result in a public-relations promotion campaign by the Bankers' Association to try to make Luxembourg better known and to improve its image.

All eight of the leading international auditing firms are now in Luxembourg. Native-born lawyers these days are turning out Euro-prospectuses as obscure as those written by English or American-trained lawyers. And as the banking community grows denser, Luxembourg is converting more residential apartments and townhouses to banks and offices — and developing a nasty international-style real estate mentality to match.

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A SPECIAL REPORT ON LUXEMBOURG

German Banking Presence Is Expected to Continue

LUXEMBOURG — The governor of the Bundesbank, the West German central bank, used the occasion of the 300th anniversary of the Berlin Stock Exchange to squelch rumors that he would allow Germans to have U.S.-type International Banking Facilities, similar to offshore banking units, in their own country.

The May 7 remarks of Karl Otto Pöhl led to a Frankfurt *Allgemeine Zeitung* headline summing up bankers' disappointment: "Luxembourg ja, Frankfurt nein." Disregarding lobbying by German bankers, Mr. Pöhl has ruled out offshore banking in Frankfurt, as well as Berlin.

"Innovation in financial markets based on foreign models must be ended wherever it could lead to weakening of the effectiveness of monetary policy, which in my view would happen were we to give into the pressure for creating a 'free trade zone' for banking," Mr. Pöhl said. "We cannot lightly undertake liberalization that risks endangering our most vital monetary policy instruments."

Germany, therefore, is not going to allow domestic international banking centers such as exist in New York or London.

Among those disappointed are advocates of a homecoming of the German banks from the Euromar-

kets like Walter Siepp, head of Commerzbank. And Mr. Pöhl turned down the arguments by Rainer Schäffer, of Dresdner Bank, who wrote an article concluding that "a free zone for foreign money on Federal Republic soil has only advantages and no disadvantages."

As a result, the representatives of the 28 German banks in Luxembourg have unpacked their baggage. Real-estate agents in the banking belt in the Tannus mountains, outside of Frankfurt, will not be able to raise their prices. Twenty years of tradition for German banking in Luxembourg will not end.

This is a relief for Luxembourg since German banks dominate its banking sector, both in numbers and volume, and account for about half the aggregate balance sheet totals. The mark is the currency of nearly 40 percent of all bank claims in Luxembourg, whereas it is only 8 percent of the business of banks worldwide reporting to the Basel-based Bank of International Settlements.

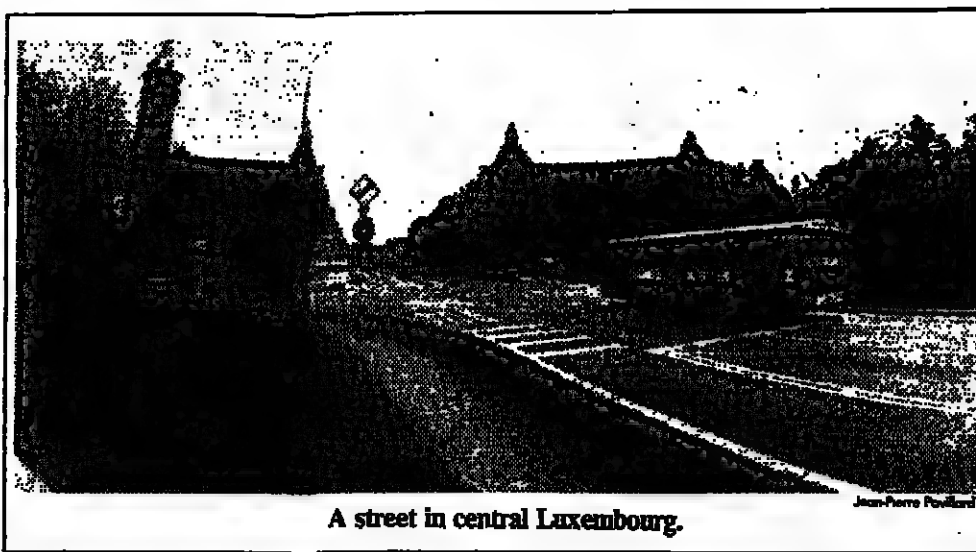
Most German banks in Luxembourg do wholesale banking, although like other banks, they are increasing their services to retail customers. In their Euromarket business, German banks are taking up notions and vehicles and instru-

ments developed in other Euro-centers.

In fact, Mr. Pöhl's negativism about offshore banking in Germany is partly a reflection of his dislike of these new instruments. He has stated reservations about variable rate notes, swaps, zero-coupon bonds and other tactics for banks to find a way of getting their interest-rate risk off their balance sheets. His distaste, he has said, is based on potential interference with monetary policy — and apparently on prudence. But to the extent that risky instruments are confined to Luxembourg, while subject to German consolidation and banking ratios, Mr. Pöhl may tolerate them.

Leaving German banks the offshore option may be a tactic to prevent "contamination" of the German system by "techniques and operations of a different psychology," said Volker Burghagen, co-managing director of Dresdner Bank in Luxembourg. "The Bundesbank has not yet reacted to withdrawn lines and liquidity guarantees" and other off-sheet financing, according to Ekkehard Storch of Deutsche Bank. "It is not clear what percentage you should include in your capital ratio for consolidation" under either Luxembourg or German rules, he added. "My concern is not jeans

recreation, but the possible repatriation of German banks to their homeland is not without importance in the country where they are staying." Talk about an International Banking Facility in Germany, which I don't expect



A street in central Luxembourg.

[head of the Institut Monétaire Luxembourg] the first danger is Pöhl."

But the most important forbidden games German bankers play in Luxembourg is dealing in the European Currency Unit. "German interest is actually stimulated because it is verboten," according to Wolfgang Spehr, managing director of the Westdeutsche Landesbank subsidiary. "The more the Bundesbank talks down the ECU, the more German curiosity increases."

Yet the excitement about the possible repatriation of German banks to their homeland is not without importance in the country where they are staying. "Talk about an International Banking Facility in Germany, which I don't expect

to happen, has made the tax authorities here think," Mr. Burghagen said. "It will mean no tax pressure on loan provisions."

Mr. Storch, whose Deutsche Bank pioneered the no-profit tactic in 1979-1980, thinks all the rumors have helped the authorities in Luxembourg to become "pragmatic." While admitting that Deutsche Bank is provisioning champion in Luxembourg, he insisted that "we would follow the same policy in Germany."

While German banks have used provisions to cut corporate profits and taxes, they have not done everything they might have to take advantage of all Luxembourg tax loopholes, in the view of one German banker, Jürgen Förster of Warburg, Brückmann. The rule al-

lows banks to switch to their home currency from Luxembourg francs without taxation of the paper profits from the switch. In his view, there is no risk that the German mark will ever fall against the Luxembourg franc, which is not the case for other currencies like the dollar. German banks that have been in the grand duchy 20 years could switch their accounting currency and turn paper profits into reserves or capital without taxes. But they have not all done so — the way Warburg, Brückmann has.

Among the German banks still accounting in Luxembourg francs are Berliner Handels- und Bank, Bank für Gemeinwirtschaft, Deutsche and Dresdner.

— VIVIAN LEWIS

Women Managers Leading Growth In Credit Sector

LUXEMBOURG — About 6 percent of Luxembourg's population, including foreigners, work in the credit sector, a rise of 50 percent from the levels of a decade ago. And leading this growth is the number of women managers.

Luxembourgish managers of credit institutions numbered only 10 a decade ago, and today there are 41; foreign women managers, who had five top jobs a decade ago, today number 43. (The total number of managers is 1,100, just under 700 of whom are foreigners.)

The woman with the highest number of people working under her is probably Kaye Wiltshire, vice president and general manager of Merrill Lynch Europe's branch in Luxembourg, with a staff of 16. A close second is Alix Mores, a Luxembourgish, who represents the Istituto Mobiliare Italiano mutual funds in Luxembourg, with a staff of nine.

Not surprisingly, both women are in investment banking, the fastest-growing part of the financial sector in Luxembourg, far outstripping the Eurobond market. The very name of Merrill Lynch makes one think of Wall Street invest-

ment, and the Milan firm's Luxembourg mutual funds are 40 percent to 50 percent invested in equities.

Unlike classic banking and the narrow world of bond-dealing, it is probably easier for women to operate in the less stuffy world of shares and options, of portfolio-building.

Miss Mores is, in fact, a super-administrator, moving funds in and out of currencies at dizzying speed. But she admits that Istituto Mobiliare Italiano in Luxembourg is a bit of a sham.

"Officially, all investments are done here, all telexes to buy and sell go from here," she said. "The head has to be in Luxembourg for tax reasons and the board of directors must meet here."

Miss Wiltshire also leads an operation that handles more administrative detail than risks. "Our analysts are in New York," she said. The Luxembourg Merrill office acts as a liaison with local banks, a transmission belt for ideas and orders between Luxembourg and the markets of the rest of the world.

"I came here with a specific job, to serve institutions with equity and bond sales," she explained. "The bulk of our business is in shares." She feels, too, that "the Luxembourg banks appreciate us. They are happy to have a local office with updated information."

A sign of the success of the Wiltshire approach has been the growth in the number of people working under her since she set the office up three years ago. Miss Wiltshire, who is British, was moved from the Merrill Brussels office to run a staff of five; today, there are 16 persons in the office and presumably a volume of business to justify the numbers. She feels that the trend to bigger volumes will continue. "The banks made their business with deposits, but as rates of interest fall, they will have to move into the equity market," she said.

When Merrill opened its office, it was the only brokerage house in the grand duchy, apart from what Miss Wiltshire described as "a one-man office with a secretary linked to Bear Stearns." But since then, another American brokerage house, Prudential-Bache, has opened in the Old City and it recently got permission from the authorities to add a separately incorporated bank to its Luxembourg presence.

Miss Wiltshire has problems getting banks to use new instruments. "Getting a futures account past the directors of one or another of these banks may take months — but they are accepting options. They will buy OEX stock index puts."

An innovation in the Merrill Lynch office has been the amalgamation of the "back office" with sales. Because of problems with liaison between sales-support personnel and the actual brokers, the Merrill system tries to avoid a gap by having an administrative person sitting next to every sales person. Since here as elsewhere the former are usually women and the latter men, the office has a nicely integrated look.

— VIVIAN LEWIS

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Nordic Banks Carve Eurobanking Niche

LUXEMBOURG — Nordic banks, which with 16 subsidiaries in Luxembourg form the second largest regional contingent after the West Germans, have proved adept in carving out a niche in the world of Eurobanking.

Rather than taking on larger and more powerful banks in the scramble to gain footholds in every aspect of the rapidly changing financial markets, banks from Denmark, Finland, Norway and Sweden have tailored their corporate policies to meet a specialized customer demand.

The strategies vary from bank to bank. In Luxembourg, they continue to go it alone, becoming increasingly well-equipped to reap the rewards from whatever custom-made business they have built up.

The factors behind the policy shift toward banking specialization are two-fold and go a long way toward explaining why the Nordic banks steadily have built up their presence in the grand duchy over the past decade.

Firstly, most Nordic countries during the 1970s prohibited domestic banks from extending foreign-currency loans to domestic corporations. With the growth of the Nordic region as an economic entity, fueled by oil riches in Norway's case and by Sweden's rapidly emerging multinationals, banks felt compelled to set up Luxembourg units to book such loans.

With the onset of bank deregulation and financial-market liberalization, which swept all the Nordic countries during the first half of the 1980s, the rules have mainly been removed, compelling the Luxembourg subsidiaries to look for other areas of business.

"The initial reasons why we came to Luxembourg no longer exist and there was a need to find new business," said Gunnar Olsson, managing director of Skandinaviska Enskilda Banken (Luxembourg), the Luxembourg subsidiary of the Swedish parent.

As long as no short-term commercial financing could come out of Sweden, Skandinaviska pursued its operations as a normal banking office, taking onto its books straightforward trade and corporate loans.

As the regulatory climate changed in Sweden, and as Swedish corporations, after two years of excellent profits, became highly liquid and no longer felt the need to

press for new loans, Skandinaviska embarked on a new phase in its Luxembourg operations.

It fine-tuned its customer base to the Benelux area, which ranks fifth to sixth in terms of Swedish exports, concentrating its resources on servicing the financial needs of the 150 Swedish subsidiaries in the Netherlands and the 100 in Belgium.

"We can offer them medium-term credit lines, guarantees and short-term business on very competitive terms," Mr. Olsson noted. In addition to this vital facet of Skandinaviska's operations, it has also come to gear its resources to

Changes in Euromarket patterns, the move into new investment instruments and the progress made by the Luxembourg center at large to shift its emphasis on wholesale banking more toward private-customer business, have helped Nordic banks force the pace of their restructuring.

the Luxembourg capital market, participating in a number of private placements and public bond issues denominated in Luxembourg francs.

The Luxembourg unit, together with the European Currency Unit, are emerging as key currencies in the plethora of funding instruments that make up the Euromarket picture in the grand duchy.

Beside these aspects, Skandinaviska also engages in the traditional funding vehicles for its credit portfolio, such as foreign-exchange trading and arbitrage. "Our policy is to try to be the most professional bank in Swedish-related trade, and now that our network is built up, our aim is to service clients on an international basis," Mr. Olsson said.

The second factor behind the general policy shift toward banking specialization among Nordic banks in Luxembourg lies in the changing contours of banking in general, and in the grand duchy in particular.

Changes in Euromarket patterns, the move into new investment instruments and the progress made by the Luxembourg center at large to shift its emphasis on wholesale banking more toward private-customer business, have helped

Nordic banks force the pace of their restructuring.

Of the five Nordic countries, Denmark and Norway have perhaps proved the most active in restructuring their Luxembourg affiliates to take advantage of the changing conditions in the international financial markets over the past two years.

Privatbanken, Denmark's oldest commercial bank, has found it more compelling than before to focus much of the activity of its Luxembourg subsidiary on servicing the financial needs of private clients, including large numbers of

Danish nonresidents living off their invested income.

With deposits of amounts as low as \$4,000, assets placed with Privatbanken in Luxembourg, for example, are free from income tax, withholding tax, inheritance and wealth duties, capital-gains tax and other taxation.

The first Danish bank to start operations in Luxembourg, in 1976, Privatbanken also offers time deposits in most of the major currencies, investment in securities and precious metals as well as fiduciary transactions.

Danish banks' Luxembourg units are also finding the growing interest in mutual investment funds a lucrative source of income in the private banking field.

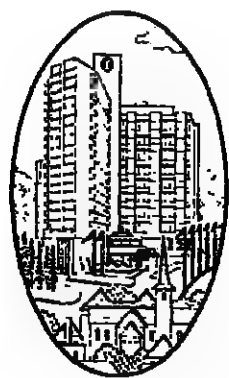
Provisbanker International (Luxembourg), the wholly owned subsidiary of one of Denmark's largest banks, Den Danske Provisbank, acts as custodian bank to the North Star investment fund group.

The Norwegian banks in Luxembourg have also found it profitable to branch out into private areas, although servicing corporate needs still remains an important part of their operations.

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HT 24/6

A SPECIAL REPORT ON LUXEMBOURG

Duchy Seeks Wider European Broadcasting Role

By Amiel Kornel

LUXEMBOURG — Eager to expand its broadcasting activities, Luxembourg's media giant, the Compagnie Luxembourgeoise de Télédiffusion, or CLT, has proposed taking over the operation of France's national private television channel, Canal Plus.

The company's interest in Canal Plus, already widely rumored, was officially confirmed in recent interviews with top officials. The CLT's readiness to join forces with the struggling French pay-TV station underscores Luxembourg's wish to be a dominant force in European television broadcasting. Canal Plus's emitters will cover 90 percent of France by the end of the year, more than any of the three national television networks.

"We at the CLT believe we could be an operator of Canal Plus, a partner in the future," said Gust Graas, the managing director of the Compagnie Luxembourgeoise de Télédiffusion. "It could be a solution for us and for Canal Plus."

Canal Plus, launched by Havas Conseil last year, has had difficulty attracting subscribers. It is France's first privately owned television station.

Mr. Graas stressed that the proposal was "only a hypothesis" and that the Luxembourg project had not yet entered into negotiations with Canal Plus on the subject.

The development is the latest episode in Luxembourg's struggle to expand its television activities. Luxembourg wants to be a "European pole" of broadcasting, said Raymond Kirsch, director of the Treasury and president of the Société Nationale de Crédit et d'investissement.

Concerned by the economy's reliance on international banking, officials are seeking to buttress the country's position as a communications center. "The banks could leave tomorrow," commented Lucien Thill, editor of the D'Letzburger Land, a weekly newspaper. "So we have to find another market, and that market is the new media."

The Luxembourg economy needs "a second leg" to stand on, he said. The country's overreliance on the steel industry in the 1970s taught it about the need for economic diversification, he said.

The Compagnie Luxembourgeoise de Télédiffusion, most commonly known by its trade name, Radio-Tele-Luxembourg, or RTL, has earned considerable revenue for Luxembourg over the past 20 years. In 1984, the company earned 1.01 billion Luxembourg francs in profits and paid 1.78 billion Luxembourg francs directly to the state in the form of taxes and licensing fees. This figure, 2.4 percent of the government's revenues, makes the CLT Luxembourg's No. 1 taxpayer.

Earnings grew by 11.9 percent in

1984 to 10.78 billion Luxembourg francs. Annual profits regularly exceed 10 percent of revenue, a figure in line with the earnings ratio of the major U.S. media groups.

So far, most revenue has come from radio advertising. But recently RTL began aggressively developing its television broadcasting activities. Four million viewers watch programs daily in eastern France, Luxembourg and Belgium, according to company figures.

In late August, RTL Plus, operating in a joint venture with the German publishing group Bertelsmann, will begin transmitting via the European communications satellite to German households.

But to succeed in European television the CLT must rapidly extend

Concerned by the economy's reliance on international banking, officials are seeking to buttress the country's position as a communications center.

its coverage further, officials said. "Television is the future," said Mr. Graas. He said that potential revenue from television is much greater than that offered by radio.

For political and economic reasons, France is the biggest and most important partner that the CLT must woo. French companies control a majority of CLT shares. The company's biggest shareholder is Havas Conseil, which is 51-percent owned by the French government. Matra, Schlumberger, and the Banque de Paris et Pays Bas, all French, also have important shares in CLT.

What is more, the French market could represent 1.5 billion francs of potential revenue, according to CLT officials. Due to a paucity of audiovisual media in the past, French television advertising accounts for only 17.5 percent of advertising spending, compared to 30 percent in Britain and 42 percent in Italy. Money-making opportunities will abound as French projects to expand the country's communications infrastructure through cable and satellites develop.

The proposal of a rapprochement with Canal Plus was motivated largely by a recently released report on the French audiovisual industry. The so-called Bredin report, commissioned by the French government, proposes the creation of two national private television stations in France. Luxembourg officials fear that, faced with competitors for advertising revenue in

France, they could not earn enough to make their television efforts profitable.

Apparently, the Canal Plus proposal could answer those concerns. "Canal Plus is the key to audiovisual broadcasting in France," said Mr. Graas.

There are good reasons why the French might be motivated to accept a partnership with CLT. Canal Plus is losing money. The Havas link in both companies assures continued French control of the station, while putting it into the hands of Europe's most successful broadcasters.

Yet complications remain. CLT does not want to get involved with a pay-TV station. Any agreement would have to transform Canal Plus into a direct competitor of the national state-owned television stations.

Officials also are wary of an arrangement that might leave most advertising revenue on the French side of the border.

"If the CLT becomes involved with Canal Plus," Mr. Kirsch said, "it must be careful not to block the future. There are schemes whereby revenue could be kept in France."

Negotiations with the French government, cut off in November, are expected to resume "very soon," Mr. Graas said.

The Canal Plus proposal is only the latest episode in Luxembourg's struggle to expand its television activities.

In 1981, the government of Pierre Werner shocked France and the CLT with the announcement of the GDL satellite project. The grand daddy began examining the feasibility of launching a satellite that would broadcast television directly to European homes equipped with receiving dishes. A concession to develop the project was granted to Coronet, a company run by an American, Clay Whitehead, which included U.S. companies as minority shareholders.

Fears of a "Yankee menace" rocked French officialdom, and the project was quickly dubbed the "Coca-Cola satellite." Political resistance took its toll and Coronet was closed down in February, ostensibly due to a lack of investors.

Luxembourg eventually was constrained to sign an agreement to lease two transponders on France's TDF1 satellite, scheduled for launch in July 1986. The agreement was viewed as crucial to the survival of the French satellite, which had come under attack due to its high cost.

But Luxembourg has not abandoned the idea of launching its own satellite. A new company, the Société Européenne des Satellites, SES, was formed March 1 to explore the project's possibilities.

Some observers doubt that Luxembourg ever plans to follow through on the project. "I don't believe in a Luxembourg separate

system," said Andrea Caruso, secretary general of Paris-based Eutelsat, the European telecommunications satellite organization that is run by the post offices. "It is one thing to talk about a satellite and it is another thing to implement it. The difference is about 350 million [French] francs."

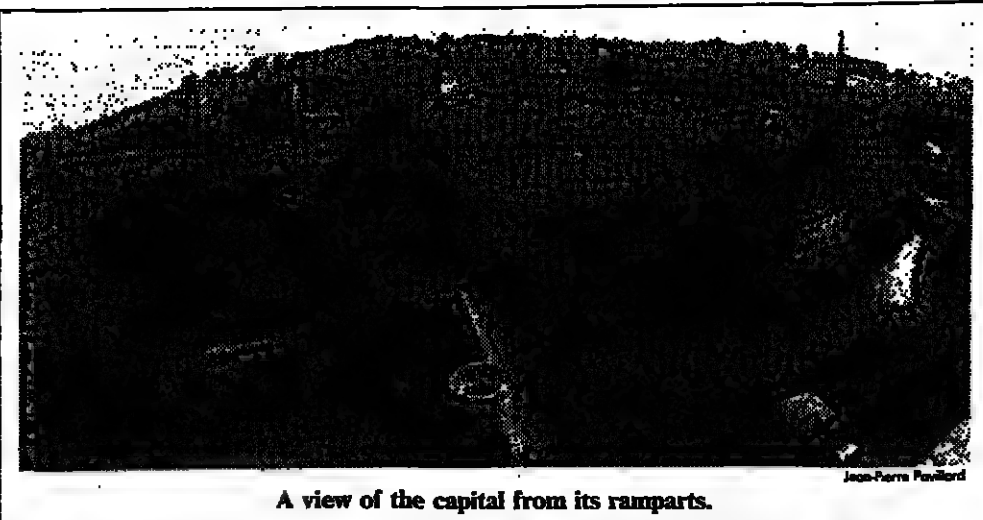
"There are games being played," Mr. Caruso said. "Some are just paper satellites, maneuvering tools."

The GDL project, countered Corneille Bruck, president of the Caisse d'Epargne de l'Etat and

president of SES, "was conceived from the beginning as a reality and it remains a reality."

"I can assure you formally," said Mr. Kirsch, who was the government liaison for Coronet, the earlier GDL version. "That it was not the conception of the government" to use the satellite as a bargaining tool in negotiations with the French.

Nevertheless, Mr. Bruck acknowledged that "as long as you have a Luxembourg project you are in a position of force. ... Otherwise the others dictate the terms."



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Highlights from the Balance Sheet as of December 31, 1984

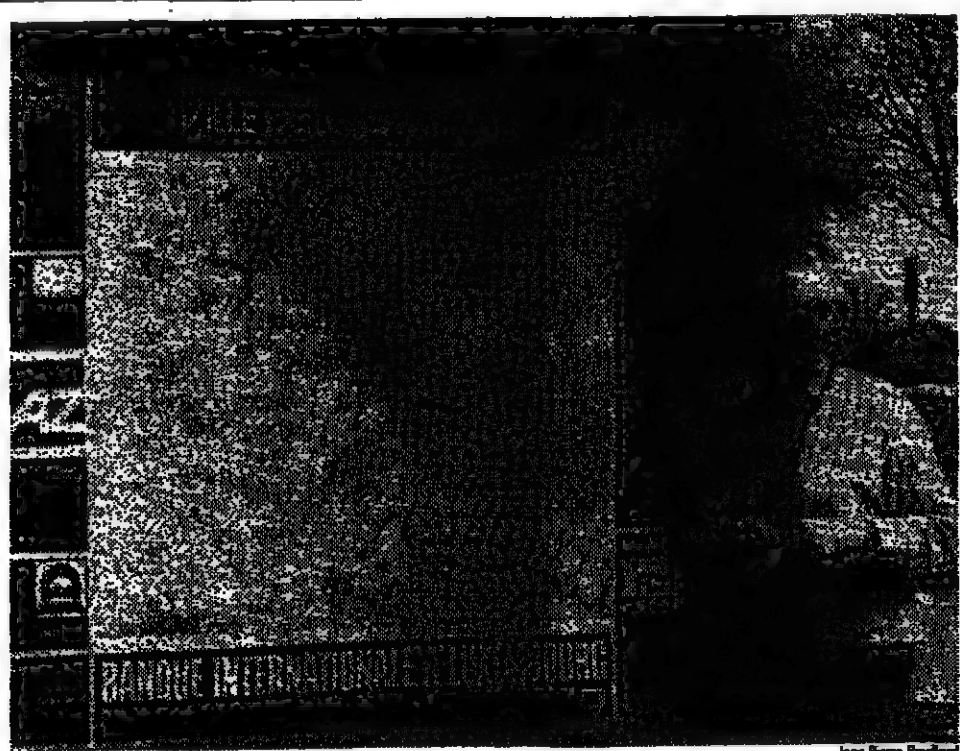
Assets	(in DM million)	Liabilities	(in DM million)
Cash	758.3	Due to banks	26,466.4
Bills	306.6	Other creditors	10,437.9
Due from banks	29,115.1	Outstanding debentures	42,247.4
Treasury bills and other securities	3,671.4	Loans on a trust basis at third-party risk	11,441.3
Due from customers	47,842.4	Provisions	660.1
Loans on a trust basis at third-party-risk	11,441.3	Nominal capital	850.0
Participations	517.5	Published reserves	1,626.0
Land and buildings	546.8	Profit	59.5
Other assets	2,143.5	Other liabilities	2,869.4
Assets of Landesbausparkasse (Building and Loan Association)	8,482.0	Liabilities of Landesbausparkasse (Building and Loan Association)	8,166.9
Total	104,824.9	Total	104,824.9

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A SPECIAL REPORT ON LUXEMBOURG

Statistics on Bank Earnings Reflect Slight Profit

LUXEMBOURG — Last winter, for the first time, Luxembourg authorities published statistics on global bank profits. The figures revealed what observers of the grand duchy have long suspected: if you confine your attention to the bottom line and the taxes paid on profit, banking in Luxembourg barely pays.

Luxembourg banks earned gross margins of just under 1 percent in 1984, according to a report published by the Institut Monétaire Luxembourgeois. The report was based on 1984 data and on results for 92 percent of all Luxembourg-based banks.

Net profits were 0.26 percent of their total footings — after provisions but before taxes — in 1983, the last year for which data were

available. And, the before-taxes profitability of banks is sinking, and in 1983 amounted to half of the relative level of 1979 and one-third that of 1977. The corporate taxes that banks have been paying also has declined, and in 1983 amounted to 8.2 billion francs — a level unchanged for three years despite the volume increase in the same period.

For their parent banks and the tax collector, it would seem, the banking business in Luxembourg does not pay. Why then, do banks rush to set up in Luxembourg?

In fact, the low net profits of banking in Luxembourg do not have anything to do with poor banking margins or high intermediation costs. Rather, they reflect the banks' right under Luxembourg

law to put away large sums of money for loan-loss provisions, thereby cutting both profits and taxes. These sums can be invested for a nice yield and are only taxable — without penalty — when the loans they cover finally are repaid.

Using provisions, banks cut taxable profits. The rate of net new provisions in 1983 was 52.6 billion, while net profits came to only 7.9 billion — all perfectly legal in the grand duchy. Among German banks, like Cie. Financière Luxembourg de la Deutsche Bank or Cie. Luxembourgeoise de Dresdner Bank, it has become something of a tradition to show no net profits at all by the simple device of putting all available profits into the provisions covering international credit risks.

One German banker, whose bank does pay some taxes in Luxembourg, said that some of his countrymen were overdoing things: "They say, as long as we are allowed to do so, why not make 100 percent provisions for Third World loans, or whatever we make let us put into reserves."

At least one non-German banker admitted that his institution had provisioned nearly two-thirds of its risky loans and will have to face a tax bite eventually. Once loans are totally covered by provisions, banks cannot add to the sums they have put away. For at least one other bank, the 100-percent-covered level will be reached in two years' time.

Of course, Luxembourg does get something out of all those banks operating on its hilltop, even if they do not pay corporate taxes. Personal income tax levels are high, and the indirect payback of bank business — ranging from employment to notoriety, from the balance of payments inflow to an increase in Luxembourg's clout in European Community politics — may make it all worthwhile. The publication of the institute's data on profits and taxes of banks has not resulted in popular clamor for a crackdown on banking tax evasions.

The tax break given banks in Luxembourg is not the only way the country's authorities make it attractive to investors. There is no withholding at source for interest on bonds issued, and no stamp duty on bonds or certificates of deposit. Mutual funds, which distribute or reinvest their earnings, can avoid having them taxed. Foreigners are not subject to grand duchy inheritance taxes. Gold trading is free of the value-added taxes applying in most of the rest of Europe. Establishing a holding company, a company or bank costs a minimum of 1 percent of the capital.

In addition to these already available tax breaks, banks are seeking even better treatment from the authorities. Another aspect is the high level — nearly 60 percent — of personal taxes in Luxembourg, and the 0.5-percent tax — a wealth tax — on the net worth of residents. Bankers also want taxes on dividends they receive from shareholdings to be eased. Currently, taxes are payable on dividends from companies not controlled at the 23-percent level; the bankers want the dividends to be tax exempt even on shareholdings of 10 to 25 percent. And a major battle is brewing over attempts by Luxembourg tax officials to take a bite from allowances for housing, education, moving expenses, or trans-

portation paid to foreigners sent to Luxembourg by their banks or firms.

However, as even greedy tax authorities, in countries like the United States, Germany and France, are allowing bonds to be sold to non-residents with no withholding taxes payable on future interest payments — benefits similar to those offered by Luxembourg, tax officials in the grand duchy are looking at new breaks for banks, particularly when they reach 100 percent provision levels. Some concessions may be made in how banks provision for other risks: inflation, foreign exchange, fall in market value of securities.

What the Luxembourg authorities keep in mind is that although corporate tax receipts are only a small part of what this country gets out of being a banking center, operating costs and taxes together, nonetheless, cover 135 percent of the Luxembourg balance of payments deficit. Nearly 6 percent of all employed persons in the country work for a bank. Banks account for 14 percent of the country's gross national product. So why squabble about a few centimes in taxes?

— VIVIAN LEWIS

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New Laws Put Insurers In Line With EC

By Chris Morrison

LONDON — Recent revisions to the Luxembourg insurance laws have brought the grand duchy into line with European Community requirements. They have also opened the prospect of adding international risk operations to its considerable financial services industry.

The law differentiates for the first time between the purely domestic insurance market and the world of offshore commercial insurance business.

But to date, despite numerous international inquiries, there is little sign that Luxembourg will turn into a major offshore insurance center to rival those of Bermuda and the Cayman Islands.

Few companies have set up shop in Luxembourg, and those that have come have been promoted mainly by the large Swedish insurance group, Skandia. Proponents, however, suggest that developments are yet to come.

On the domestic front, the new law, which was introduced in March last year, tidied up the country's commitments to a number of EC directives and permitted for the first time the operation of independent insurance brokers. Although the brokers' scope for action is severely restricted, their existence adds a new dimension to the local market. The local market previously had relied on the sales generated by an army of agents to individual insurance companies.

The country has about 40 authorized insurers. In 1983, they produced about 5.5 billion Luxembourg francs in premiums. But although the local market is small, it is not without its attractions, a point demonstrated by the purchase earlier this year of a one-third stake in the leading Luxembourg insurer, Le Foyer, by the giant

U.K. insurance company, Guardian Royal Exchange.

The Luxembourg bid to attract international insurance business, meanwhile, comes at a time when it has suffered a major decline in its traditional steel industries and a tailing off in the banking sector. It has sought, therefore, to lay down a welcome mat — right in the heart of Europe — for the international insurance community.

The availability of such offshore locations is attractive to both large multinational companies and international insurance companies. Over the last decade, multinationals have sought to maximize returns by retaining many of their own risks rather than purchasing

expensive insurance cover from outside insurance companies. To do this they have formed their own "captive" insurance companies and located them in areas with congenial tax requirements.

These offshore locations also have become a center for reinsurance, a form of insurance that arises as insurance operations lay off part of their exposures with other insurers to balance their portfolios and limit heavy concentrations of risk.

This creates a pool of business attractive to specialist reinsurance companies and captives alike. The latter also have looked outside business in recent years because of a number of tax requirements particularly affecting operations whose parent company is located in the United States.

The enactment of the new insurance rules in Luxembourg and the formation of a new insurance commissioner's office determined the details of minimum capital requirements for reinsurance and captive companies and set guidelines for such matters as the ethical and professional qualities of their management.

These operations are required to obtain a license from the Ministry of Finance, which they receive only upon adopting the form of a "société anonyme," or limited company, and providing a fully paid-up capital of 50 million Luxembourg francs.

However, this capital requirement can be as little as 6 million Luxembourg francs for a captive insurance company that limits its business to parent-company risks.

Further rules govern the reserves that companies must hold to cover their liabilities — higher again for third-party reinsurers, lower for purely captive business.

The real attraction, however, for reinsurers is likely to be the offer of a 10-year tax holiday for a company's operation, provided no dividend remittances are made. Despite some initial uncertainty it would appear that this holiday, which can be used to build up a company's capital base, will apply to all the reinsurers operations, including underwriting and investment.

Further initial doubts about the management of such operations also appear to have been resolved. At first it was thought that each operation would be required to employ its own manager, who would have to prove his honesty and competence in the business of reinsurance. Such a requirement would have proved expensive since many captives in other locations are operated by specialist management companies offering their services to a number of different parties. Such companies are now permitted to operate and at least two are said to be active.

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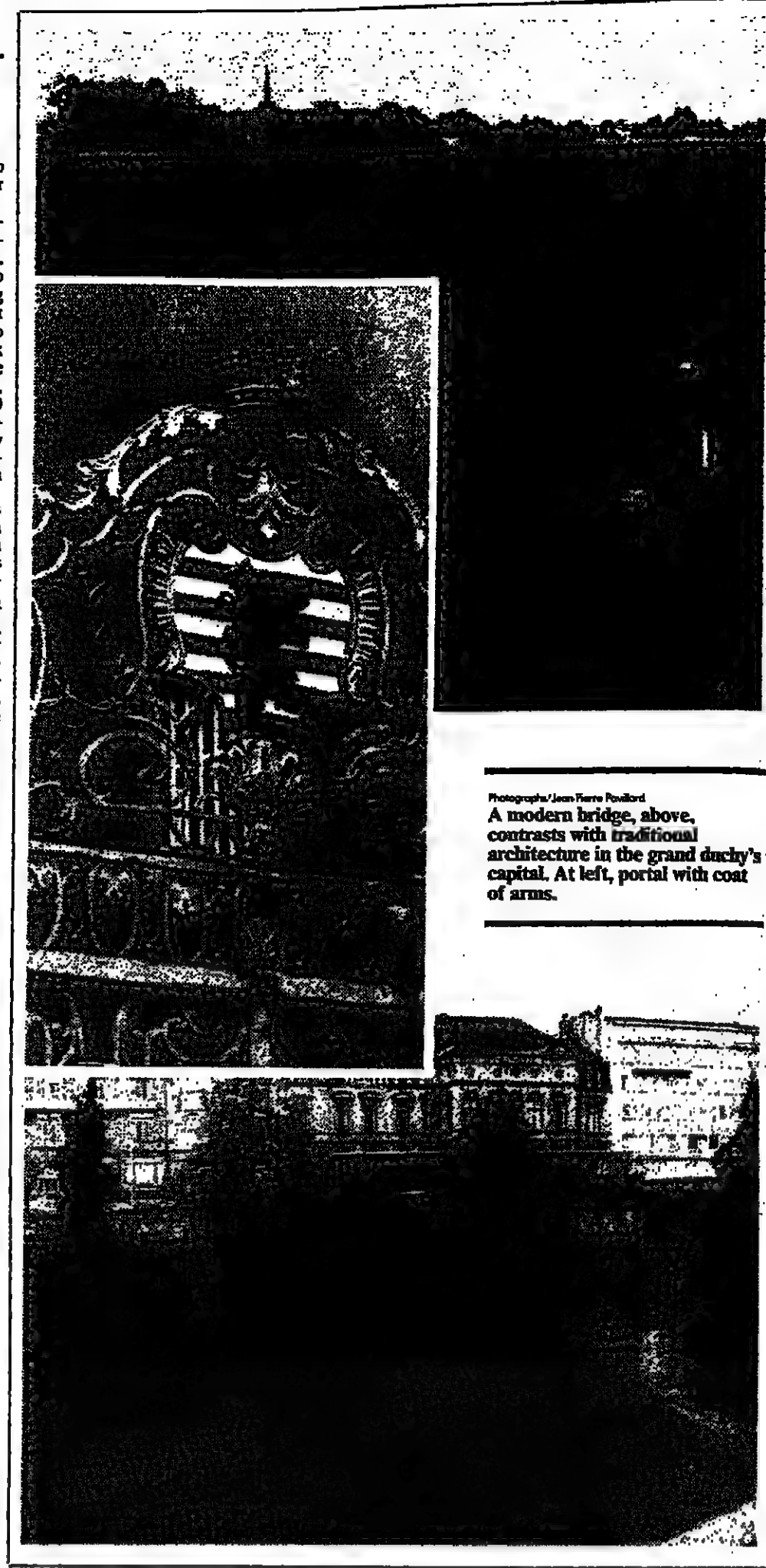
Condensed
Balance Sheet
as per
December 31,
1984

ASSETS	in millions of DM	previous year
Amounts due from banks	3,638.8	3,581.5
Loans and advances to customers	6,464.2	6,611.1
Securities	464.9	391.7
Other assets	418.7	337.9
	10,986.6	10,922.2
LIABILITIES	in millions of DM	previous year
Amounts due to banks	9,228.2	9,436.1
Current deposits and other accounts	723.3	563.6
Other liabilities	277.6	275.6
Share capital	125.5	125.5
Reserves	214.3	199.0
Provisions	405.1	309.7
Profit	12.6	12.7
	10,986.6	10,922.2

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The unabbreviated annual statement as well as the profit and loss accounts will be published in the "MEMORIAL, Amtsblatt des Großherzogtums Luxemburg, Ausgabe C" (Official Gazette of the Grand Duchy of Luxembourg, edition C)



Photograph by Jean Pierre Pavillard
A modern bridge, above, contrasts with traditional architecture in the grand duchy's capital. At left, portal with coat of arms.

Lack of Rate

New Eurobond Issues

Issuer	Amount (millions)	Maturity	Coupon %	Price	Price end week	Terms
FLOATING RATE NOTES						
Allied Irish Banks	\$100	perpet	1/4	100	97.75	Over 3-month Libor, maximum 13% for first 12 years. Callable at par in 1997. Fees 1%.
Bank für Gemeinwirtschaft	\$100	1992	3/4	100	99.56	Over 6-month Libor, maximum 13%. Noncallable. Fees 0.5%.
Belgium	\$400	2005	libid	100	99.60	Senior secured interest will be the higher of 6-month Libor or the average of 1-month Libor rates. Callable at par in 1987. Fees 0.0425%. Denominations \$250,000.
BNP	\$250	1997	3/4	100	99.94	Over 3-month Libor, maximum 13%. Noncallable. Fees 0.35%. Denominations \$100,000.
Citicorp Banking	\$250	1997	3/16	100	99.50	Over Libor. Borrower to decide whether interest will be 1, 3 or 6-month rate. First coupon to be over 6-month rate. Callable at par in 1990. Fees 0.40%. Denominations \$100,000.
Credicorp	\$150	1993	limean	100	99.62	Senior secured interest will be the higher of 6-month Libor, set monthly, or of the average of 1-month Libor rates. Callable at par on any interest payment date. Fees 0.45%.
Crédit Lyonnais	\$250	1997	3/4	100	99.75	Over 3-month Libor, maximum 12.5%. Noncallable. Fees 0.35%.
Kansai Osaaka	\$100	1997	3/4	100	99.60	Over 3-month Libor, maximum 13%. Noncallable. Fees 0.50%. Denominations \$100,000.
Mitsui Bank	\$150	1997	3/4	100	99.90	Over 3-month Libor, maximum 12.5%. Fees 0.375%.
Republic of New York Corp.	\$100	2010	1/4	100	99.35	Over 3-month Libor, Callable at par in 1990. Fees 0.65%.
Swedbank	\$75	1997	3/4	100	—	Over 3-month Libor, maximum 13%. Noncallable. Fees 0.50%.
Westpac Banking	\$150	1997	3/4	100	99.90	Over 6-month Libor, maximum 13%. Noncallable. Fees 0.40%.
Cooperative Bank	\$75	2000	1/4	100	99.60	Over 3-month Libor. Callable at par in 1990. Fees 0.50%.
Korea Development Bank	ECU 50	1992	1/4	100	—	Over 6-month Libor. Callable at par in 1988 and redeemable at par in 1990. Fee 1.125%.
FIXED-COUPON						
EdF	\$225	1995	10	99 1/2	94.75	Callable at 101 in 1992. Increased from \$125 million.
Eurofima	\$100	1995	10	100	96.38	Callable at 100% in 1992.
Florida Federal Savings & Loans	\$160	1995	zero	36.15	34.05	Yield 10.71%. Proceeds \$57 million. Backed by cash and securities.
John Labatt	\$100	1995	10 1/2	99 1/2	96.13	Noncallable.
Loaneinsitutet for Slipsbyggarene	\$50	1990	9 1/2	100	98.00	Noncallable.
LTCB	\$150	1995	10 1/2	100 1/2	98.88	Noncallable. Denominations \$100,000.
Procter & Gamble	\$150	1995	10	100	96.13	Callable at 101 in 1992.
IADB	DM 250	1995	7 1/4	100	98.50	Noncallable.
Posts & Telecommunications of South Africa	DM 100	1990	7 1/4	99 1/2	98.00	Noncallable.
Posts & Telecommunications of South Africa	DM 100	1993	8	100	98.00	Noncallable.
All Nippon Airways	ECU 130	1995	9	100 1/2	97.88	Noncallable.
Bank Mees & Hope	ECU 50	1992	9	100 1/2	99.38	Noncallable.
C. Itoh	ECU 60	1992	8 1/2	100	98.00	Noncallable.
Fiat Finance & Trade	ECU 55.5	1990	8 1/2	100	98.00	Noncallable. Serial redemption starting in 1989 to produce a 4-yr average life.
Motors	ECU 50	1992	8 1/2	99 1/2	97.38	Noncallable.
Union Bank of Finland	ECU 15	1992	9 1/2	open	98.50	Noncallable. Price to be set June 28.
Hamilton Westworth	CS 25	1995	10 1/2	99 1/2	97.25	Noncallable.
Werkdhave	DF 75	1990	7 1/2	100	—	Noncallable private placement.
Commonwealth Bank of Australia	Aus\$ 100	1990	12 1/2	100 1/2	98.63	Noncallable.
Erste Österreichische Spar-Casse Bank	Aus\$ 40	1990	13 1/2	100 1/2	99.25	Noncallable.
PG Bank	NZ\$ 50	1990	16 1/2	100 1/2	—	Noncallable.
Sweden	FF 500	2000	11	100	98.50	Callable and redeemable at par in 1990 and 1995 when new terms will be set.
Norsk Hydro	NK 250	1992	11 1/2	100	—	Callable at 101 in 1990.
EQUITY-LINKED						
Kyotaru	\$30	1995	open	100	98.13	Senior secured coupon indicated at 35%. Callable at 102% in 1988. Convertible at an expected 5% premium. Terms to be set June 26.
Sandax Holdings Nederland	\$100	1997	open	100	98.50	Coupon indicated at 4 1/4-4 1/2%. Callable at 103 1/2% in 1990. Convertible into participation certificates at an expected 10% premium.
Tokyo Department Stores	\$50	1990	7 1/4	100	100.00	Noncallable. Each \$5,000 note with one warrant exercisable into shares of an expected 25% premium. Terms to be set June 27.
Viacom Int'l	\$50	2000	open	100	98.88	Coupon indicated at 7 7/8%. Convertible at an expected 15-18% premium. Terms to be set June 25.
Pobelfina	ECU 20	1995	7	100	99.50	Noncallable. Each 1,000-ecu note with six 5-yr warrants exercisable into shares of Popeleries de Belgique at a 8.6% premium.

Lack of Rate Cut Unsettles Market

(Continued from Page 7)

includes a maximum coupon of 13 percent with the rate of interest set at 4 1/2-point over Libor. Normally, there is a 1/2-point difference between the bid-offered rate, which means that 4 1/2-point over Libor is the same thing as 4-point over Libor.

The advantage to the borrower by basing the rate on Libor is that in the event of a crisis in the interbank market — which in the past has resulted in a substantial widening between bid-offered rates — there could be a substantial saving over having set Libor as the base.

In all, \$1.175 billion worth of capped FRNs were issued last week. And with short-term interest rates beginning to rise again, bankers were warning that the demand for capped paper was not keeping pace with the ever increasing supply.

There were also complaints that too much French bank paper was coming to the market. Indo-Suez and Banque Française du Commerce Extérieur were the first to tap the market and last week were followed by Banque Nationale de Paris and Crédit Lyonnais.

Crédit Lyonnais antagonized the market by setting a cap of 12 1/2 percent, as did Mitsui Bank. The French bank attempted to compensate holders of its 12-year paper by setting its interest at 4 1/2-point over Libor while Mitsui set 4-point margin over Libor on its 12-year issue. Despite the slightly better conditions on the Crédit Lyonnais paper, the Mitsui issue traded better — down 10 basis points from the offering price, compared with down 25 basis points for Crédit Lyonnais.

The worst received was Allied Irish Bank's \$100 million of capped, perpetual bonds. The mixing of these two special elements was not fortuitous. In addition, both Allied Irish and Republic of New York (which offered \$100 million of classic 25-year FRNs priced at 1/2-point over Libor) suffered from having had previous FRNs trade poorly, leaving investors with bad feelings about both papers.

Allied Irish set its coupon at 1/2-point over three-month Libor with the cap of 13 percent to run for the first 12 years. Commissions paid to underwriters totaled 1 percent and the notes ended the week at 97 1/4 — a stiff 1 1/2-point loss for banks participating in the deal.

Citicorp also failed to find favor with its innovation of retaining the option to set the interest period at whichever rate is more favorable to itself. It will pay interest of 3/16-point over the one-, three-, or six-month Libor for its \$250 million. The first coupon period will be set over the six-month rate, which currently is the highest of the three options. But holders are offered no security that Citicorp will always choose the highest rate during the 12-year life of this issue. The notes traded at 99 1/2, a slight loss for underwriters who bought the paper at 99.60.

Belgium tapped the market for \$400 million using the currently unpopular mis-match formula. Interest on the 20-year notes will be set at one-month Libor or six-month Libor, whichever is higher. This protects banks against an inversion of the yield curve and enables them to finance their holdings by borrowing one-month money at 7 1/16 percent and earning the six-month Libor rate of 8 percent.

The ECU market suffered last week as coupon levels on most new issues — ranging from 8 1/2 to 9 percent — trail the 9 1/2-to-9 3/4-percent borrowing costs banks need to pay to finance their underwritings. As a result, these issues were trading at discounts of around 2 percent.

Breaking this trend was Union Bank of Finland, which set a coupon of 9 1/4 percent on its seven-year issue of 15 million ECU. The offering price will be set June 28, but the notes were trading at a discount of 1 1/2 points.

The Belgian paper company Pabelfina offered the first equity-linked ECU issue. It is selling 20 million ECU of 10-year bonds bearing a coupon of 7 percent.

Each bond carries warrants to buy 18 shares of Papeteries de Belgique, the parent company, at a price of 2,500 Belgian francs. The shares currently are trading at 2,300 francs. The warrants can be exercised between next January and Dec. 31, 1990.

The New Zealand dollar market was also hard hit by high finance charges forcing underwriters who could not find buyers to dump their holdings. Bankers reported that underwriters without access to retail clients were dumping paper at discounts of up to 4 points. This was being taken up by retail-oriented banks who were offering paper to their clients at only modest discounts.

The latest to tap this market is DG Bank, which is offering 50 million dollars of five-year, 16 1/2-percent notes at a price of 100 1/4. These high coupons appeal to investors in the Benelux countries and Switzerland, but banks who face financing charges of more than 20 percent or run an exchange risk by financing in U.S. dollars are not eager to warehouse paper that is not quickly sold.

Shell Will Buy 400 Arco Stations

Los Angeles Times Service
LOS ANGELES — Atlantic Richfield Co. has agreed to sell about 400 gasoline stations in eastern states to Shell Oil Co., which will make Shell the biggest U.S. retailer. The price was not given. Analysts said the sale would significantly strengthen Shell's position on the East Coast, where it is the second biggest gasoline retailer with 10.5 percent of the market, behind Amoco with 19.9 percent. Arco previously announced plans to sell assets east of the Mississippi and concentrate on West Coast retailing. The 400 stations are in Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, Rhode Island, Virginia and Washington.

Coke Taps Market for \$365-Million Note Facility

By Carl Gwartz

International Herald Tribune

PARIS — With banks rushing to turn their assets into marketable securities it was inevitable that corporations would ultimately do the same. The first company to use the Eurobond market in this way is Coca-Cola Co.

It has created a special-purpose company, EBS Financial Corp., which is arranging a \$365-million note issuance facility. The money raised by EBS will be paid to Coke in exchange for receivables it is owed from theater distributors via its subsidiary Columbia Pictures Industries Inc.

Coca-Cola is not directly guaranteeing EBS but is providing assurance that the receivables will be paid. These payments will provide EBS the income to service the note facility.

For Coke, the operation means a lightening, albeit only by a pittance, of its balance sheet and an increase in its working capital. Annual payment of the receipts means that the amount of the four-year facility outstanding each year will be reduced, producing an average life of only 1 1/2 years.

Underwriters of the facility will earn an annual fee of 1/16 percent, or 6.25 basis points. Banks will be invited to bid for the notes but the underwriters also stand ready to accept the notes at a maximum charge of 1/4-point over the London interbank offered rate. If underwriters wind up taking more than half of the total, they will earn an additional 1/4-point.

Assuming the worst case, in which underwriters take all the paper, Coke would pay 25 basis points on the interest, plus an annual 6.25 basis points, plus a front-end fee of 9 basis points — or 2.25 a year — for a total cost of 33.5 basis points. The annual facility fee increases to 7.5 basis points as the amount outstanding decreases through amortization.

Credicorp, the Italian state-owned medium-term credit agency, is also tapping the market through a special purpose company, Prisma Bond GmbH, set up by Merrill Lynch and the Law Department of the Italian government.

This is similar to the operation conducted a week earlier by Bankers Trust Co. for Isveimer, Italy's regional development agency. While Prisma will be the actual issuer of \$150 million of eight-year floating-rate notes, Prisma's sole asset is the loan to Credicorp and thus it is a Credicorp risk that purchasers of the FRN will be buying.

Interest on the FRN is based on the mismatch formula with Credicorp paying the average of the six-month London interbank bid-offered rate or one-month Libor, whichever is higher.

Canada Permanent Mortgage Corp. is arranging a \$75-million transferable loan facility — a syndicated credit that lenders can sell to other institutions. Interest on the six-year facility will be set at 30 basis points over six-month Libor. Front-end fees total 10 basis points and a commitment fee of 1/4-percent will be charged on any undrawn amount.

Syndication of the \$1.5-billion note facility for Sweden has been completed with subscriptions of \$1.8 billion. No decision has been made on whether to increase the amount.

Elsewhere, two Spanish borrowers are renegotiating outstanding credits to take advantage of the reduced charges now available. ICO, the state credit agency, is renegotiating a \$200-million, 10-year credit arranged in 1981 on which it was paying 1/2-point over Libor.

The new 10-year loan of \$180 million will be split with half priced at 1/2-point over Libor for the first two years and 3/4-point over for the remainder. Pricing on the other half will be set for the first two years at 37 1/2 basis points over the 90-day reserve adjusted rate for certificates of deposit and 50 basis points over for the final eight years.

Iberduero, Spain's largest private electric utility, is renegotiating a five-year, \$90-million loan signed in 1983 on which it was paying 3/4-point over the prime rate or 155 basis points over the adjusted CD rate, whichever was lower. Its new 10-year, \$90-million loan will be priced either at 1/2-point over Libor or at the lower of 15 basis points over the prime rate, or 110 basis points over the CD rate.

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OUR 30th YEAR

Prices of Bonds Decrease Sharply As Discount Cut Appears Less Likely

By Phillip H. Wiggins

New York Times Service

NEW YORK — Frustrated expectations of a cut in the Federal Reserve's discount rate have pushed down bond prices sharply.

Early on Friday, the credit markets continued to react negatively to the unexpectedly sharp jump of \$4.8 billion in the basic U.S. money supply. M-1, reported late Thursday, but the selling waned after lunch, when sporadic bargain-hunting appeared.

M-1 includes currency in circulation, travelers checks and checking deposits. Bond prices last rose on Tuesday, after several major banks lowered their prime lending rates to 9.5 percent from 10 percent. On Wednesday bond prices moved lower and that trend picked up Thursday, because of the government's estimate of stronger growth in the current quarter and then the money-supply report.

Gary Ciminero, chief economist at Fleet Financial Group in Providence, Rhode Island, said the

week's gyrations reflected a sobering of overly optimistic expectations. "Especially disappointing to a market that expected weak economic growth and further Fed easing were stronger economic figures."

U.S. CREDIT MARKETS

and the failure of the Fed to cut the discount rate another half a percentage point, to 7 percent, he added.

Dennis J. McDonnell, senior vice president of Van Kampen Merritt, an investment banking firm based in Naperville, Illinois, said the bond market could still move lower in the long term.

He cited a variety of factors, including "pressure on commodities, a slowdown in the growth of private credit demand, and the effects of the continued strength of the dollar on prices and output."

On Friday, short-term Treasury bill rates were slightly higher with the three-month issue bid at 7.05 percent, up from 6.79 percent,

while the six-month issue finished at 7.25 percent, up from 7.12 percent.

In the intermediate sector, prices of Treasury notes slipped, with the new 8.5-percent, two-year issue falling 8/32, to 99 1/4/32.

At the longer end of the government debt market, the price of the Treasury's key 30-year, 11 1/4-percent bond was off as much as half a percentage point Friday, before late buying cut the loss in half. At the close the yield was 10.58 percent, up from 10.48 percent on Thursday, when the bond dropped as much as 1 1/2 points.

U.S. Consumer Rates

For Week Ended June 21

Postbox Savings 5.50 %

Tax Exempt Bonds 8.69 %

Bank Money Market Accounts 7.52 %

Bank Rate Money Index 7.08 %

Home Mortgage FHLB average 13.70 %

U.S. Indicts 14 in Sugar-Import Fraud

By Mary Thornton

Washington Post Service

WASHINGTON — A federal grand jury has indicted 14 persons and 13 businesses in the first phase of a U.S. Customs Service investigation of the sugar industry.

Customs officials said the investigation could eventually lead to \$1 billion in fines and restitution payments. They said the investigation has found widespread evidence that sugar dealers have evaded sugar-import quotas and simultaneously defrauded the government of import duties.

The investigation comes at an inopportune time for the U.S. sugar industry. Congress is considering this year whether to continue sugar price supports established in 1982. Proponents argue that the supports protect U.S. producers and consumers from wide price fluctuations; opponents say the supports produce higher costs to consumers.

Customs officials said Friday that as much as 500 million pounds (225 million kilograms) of sugar a year has been illegally entering the U.S. market. Lost import duties over several years were estimated at \$50 million.

A 1983 change in Agriculture Department rules allows specially licensed importers to bring foreign sugar into the United States for refining, then to export it within 90 days for sale abroad. Importers pay duty of 2.8 cents a pound when the sugar comes into the United States but receive a "drawback" — or refund — of 99 percent when the refined product is exported.

The dealers indicted Friday al-

legedly imported the sugar, paid the proper duties and then filed fraudulent forms to indicate that the refined sugar had been exported, allowing them not only to claim the drawback but to sell the sugar illegally in the United States.

Those named in the indictments included sugar brokerage, storage and transportation companies and their owners and officials. Customs sources said all but one are expected to enter into a plea-bargaining arrangement.

The remaining defendant, José Miguel Arago, 38, a Miami sugar dealer, was described as the operation's "kingpin." Customs officials said Mr. Arago is believed to be vacationing in the Bahamas.

Clouds Over U.S. Economy

(Continued from Page 7)

crease in the stock of capital assets owned by business.

Some foreign investors helped pay for those assets directly by buying shares in U.S. companies, or joining limited partnerships to build or buy real estate, for example. In other cases, the foreigners bought U.S. government securities issued by the Treasury to help finance the budget deficit.

Allen Sinai, economist of Shearson Lehman Brothers, said the long string of huge U.S. budget deficits had stimulated growth and raised interest rates, strengthening the dollar. "Imports increase and the pace of exports decreases. A worsening trade deficit and an increased trade debt result," he said.

"So long as the huge federal budget deficits remain, the process continues until the trade sector becomes so weak that economic growth slows, interest rates drop, the dollar declines and the process is reversed," Mr. Sinai added.

Concerned about the condition of financial institutions, the value of the dollar and the plight of the

manufacturing and agricultural sectors, the Federal Reserve has been pumping large amounts of money and credit into the economy. In the process, the central bank has had to ignore its targets for growth of M-1, which includes cash and checking accounts.

Meanwhile, the U.S. government continues to sop up money from the capital markets like a sponge. The budget deficit for fiscal 1985, which ends Sept. 30, will be more than \$200 billion, probably about \$206 billion. That means that \$806 billion would have been added to the national debt in the five years of the Reagan presidency, pushing the total to about \$1.825 trillion at the end of the year.

A portion of the federal deficit is being offset by surpluses of \$50 billion to \$55 billion at the state and local government level. But taken together, the total government deficit will still amount to about 3.8 percent of GNP.

Once the federal government has financed its deficit, about 3.1 percent of GNP is left to support all net investment.

FDIC Is Named As the Receiver For N.Y. Bank

United Press International

NEW YORK — Anxious depositors gathered on the weekend outside the Golden Pacific National Bank in New York's Chinatown district, after the Federal Deposit Insurance Corp. announced the bank had been closed Friday.

FDIC officials spent Saturday in the bank's offices, where a notice posted by the Controller of the Currency's Office said the FDIC had been appointed as receiver. A spokesman for the bank, with deposits totaling \$150 million, was not available for comment.

An FDIC spokesman said deposits of up to \$100,000 were insured by the federal government, but it was not known how many of the bank's deposits were for amounts greater than that.

The bank's closure was announced late Friday by the FDIC. Such a late announcement is relatively rare, according to industry observers. Bank closure announcements usually are made just after 4 P.M. on Fridays, shortly after the closing of financial markets.

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Gold Options (prices in \$/oz.)

Price Bid Ask Bid Ask

200 1509.1630 1510.0000 1510.0000 1510.0000

300 1509.1630 1510.0000 1510.0000 1510.0000

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Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277
Prices may vary according to market conditions and other factors.

Prices may vary according to market conditions and other factors.

[illegible]

For the Week Ending June 21, 1985

[illegible][illegible]

CONVERTIBLE BONDS

[illegible]

HIGHEST CURRENT YIELDS
On convertibles having a conversion premium
of less than 10%.

HIGHEST CURRENT YIELDS
On convertibles having a conversion premium
of less than 10%.

[illegible]

Explanation of Symbols

CDR	Canadian Dollar	SDR	Special Drawing Rights
ECU	European Currency Unit	Y	Yen
EUA	European Unit of Account	LFR	Luxembourg Franc
L	Pound Sterling	SFR	Swiss Franc
DM	Deutsche Mark	PF	Compt.
NT\$	New Taiwan Dollar		

S fi

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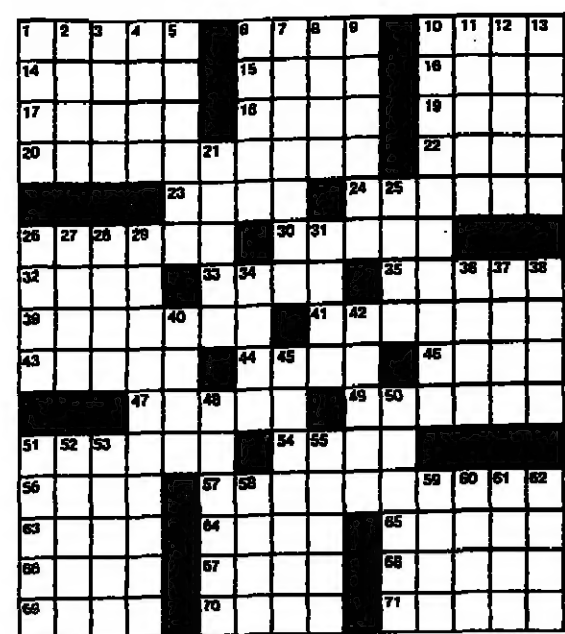
TOTAL COMPAGNIE FRANÇAISE DES PETROLES

Score in	Not	Score in
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[illegible]

Option & price	Colls	Puts	Option & price	Colls	Puts	Option & price	Colls	Puts
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[illegible]



- ACROSS**
- David Low's colonel
 - Pious
 - Quick pokes
 - Not express
 - U.S.S.R.-China river boundary
 - Doubly curved molding
 - City of Gainesville
 - Actress Schneider
 - Strongly alcoholic
 - Persuaders
 - African river
 - N.C. college
 - Hide treater
 - Full of lumps
 - Sapid
 - Pilate's "man"
 - Schoolroom fixture
 - Ghana's capital
 - Changed a bill
 - Flies upon a stake
 - Lustrous velvet
 - Germ plasm element
 - Odd notion
 - Saudi neighbor
- DOWN**
- Proficient ones
 - Sreisand
 - Big blow
 - Continually
 - Fabricated flimsily
 - Puerto
 - Subordinate
 - This, in Valencia
 - Sunder
 - Diacritical mark
 - Accepted
 - Comprehends
 - Porterhouse or sirloin
 - Amorphous lump
 - Places
 - Suffix with myth or post
 - Shop complex
 - Got in the game
 - Producer
 - Point
 - Equals in effect, with "to"
 - Anesthetized
 - Purview
 - Country corn bread
 - On the other hand
 - Comedian Milton
 - Exodus feast
 - Glasgow's river
 - Nipa
 - Fellow
 - Glen Gray's Casa
 - Orchestra
 - Prophetic sign
 - Free-style fracas
 - Basically alike
 - Sharpness
 - Very short film
 - Lessee's responsibility
 - Fixes a price
 - Doe and roe
 - Farinaceous
 - Erch
 - Big leagues
 - Carer
 - beginnings
 - Special Forces headgear
 - Dispatch boat
 - Right-hand page
 - City on the Rhone
 - Lake port
 - Military group
 - Run in neutral
 - Healer of Troy
 - Tough trip
- 6/24/85

DENNIS THE MENACE



"Mr. Wilson cut 'em for you. I told him you like roses that are just about to hatch."

JUMBLE

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

HOUTY

YIPTE

ENBOCK

SUFOAM

Print answer here: _____

Friday's Jumbles: ONION SOGGY VASSAL NEWEST

Answer: What a philanthropist thinks the world owes him a LOVING

WEATHER

EUROPE	HIGH	LOW	ASIA	HIGH	LOW
Amsterdam	15	10	Beijing	28	18
Antwerp	15	10	Bombay	32	22
Birmingham	15	10	Buenos Aires	28	18
Bombay	32	22	Calcutta	32	22
Boston	15	10	Canton	28	18
Brexit	15	10	Chongqing	28	18
Buenos Aires	28	18	Colon	28	18
Calcutta	32	22	Hankow	28	18
Canton	28	18	Harbin	28	18
Chongqing	28	18	Hong Kong	28	18
Colon	28	18	Kobe	28	18
Hankow	28	18	Manila	28	18
Harbin	28	18	Peking	28	18
Hong Kong	28	18	Shanghai	28	18
Kobe	28	18	Tientsin	28	18
Manila	28	18	Yokohama	28	18
Peking	28	18			
Shanghai	28	18			
Tientsin	28	18			
Yokohama	28	18			

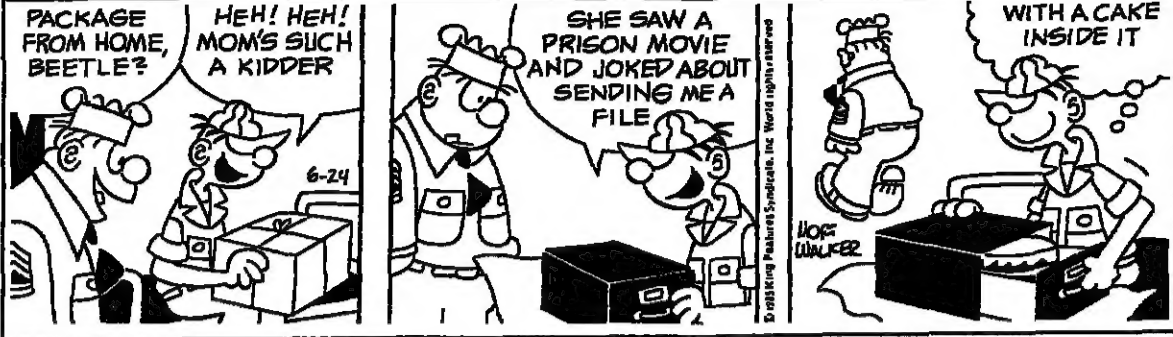
PEANUTS



BLONDIE



BETTY BAILEY



ANDY CAPP



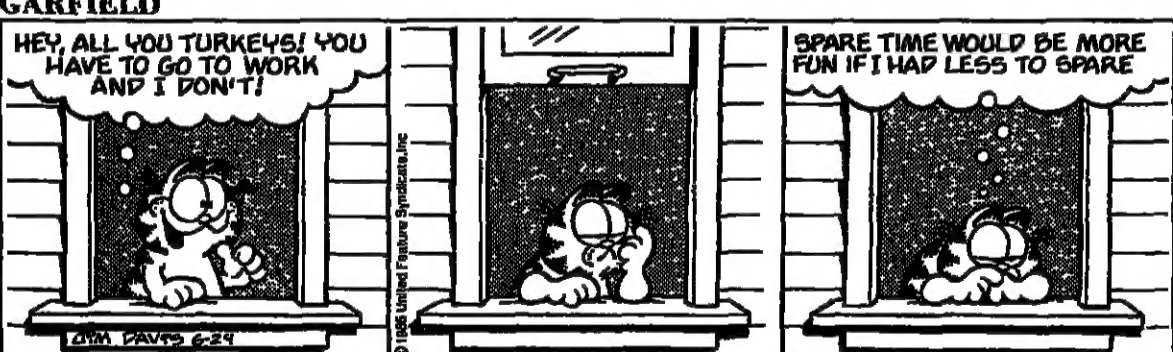
WIZARD OF ID



REX MORGAN



GARFIELD



BOOKS

GERMANY TODAY: A Personal Report

By Walter Laqueur. 231 pp. \$16.95.
Little, Brown, 34 Beacon Street, Boston, Mass. 02106.

Reviewed by John Gross

FRANZ ALT is a well-known figure on West German television, one of a small group of political commentators who enjoy a far wider following in the Federal Republic than any of their colleagues in the press. Some time ago, he brought out a book in support of the West German peace movement that, according to Walter Laqueur in "Germany Today," contained virtually nothing that had not been said many times before by other writers. Within a few months, however, it had sold more than 600,000 copies in hard cover, as the work of a television personality, it attracted greater interest than the political writings of Heinrich Böll, Günter Grass or any of their fellow literati.

Yet how many of us have ever heard of Franz Alt? The fact that his name means virtually nothing outside West Germany is a useful reminder of how relatively under-reported a country it is, and of how much we have to learn from a survey like Laqueur's—a shrewd, well-balanced blend of reportage and analysis that sets recent developments in perspective and provides a good deal of unfamiliar and often intriguing information.

Laqueur, who has written many works of contemporary history, was born in Silesia. Though he left Germany after the Nazis came to power, he brings to this book an intimate knowledge of German culture and society as they once were; at almost every stage of his inquiry he is conscious of change, of the extent to which prewar Germany and the traditions it preserved have gone forever.

At the end of World War II, for example, a quarter of the German population worked on the land. Today the figure is 6 percent and dropping; farming has become heavily mechanized—Laqueur met a successful dairy farmer who did not know how to milk a cow by hand—and the old-style village has virtually disappeared. The Lüneburg Heath, not long ago still the wild and largely uncultivated region celebrated in popular ballads, now includes among its amenities an amusement park. The Teutoburg Forest, sacred to generations of patriots as the place where Arminius defeated the Ro-

man legions, has been tamed; one of its main attractions is a wildlife park called SafariLand. The transformation of urban life has been no less striking. City streets have more in common with their counterparts elsewhere in Western Europe than with streets in the same cities 60 years ago. Historic towns have changed character—Göttingen, once known almost exclusively for its university, is now an important engineering center. And as industry shifts course, the old industrial heartlands are no longer what they were. At Essen, only one coal mine is still operating, and Krupp has been replaced as the city's largest taxpayer by Coca-Cola, which has its West German headquarters there.

Most of the trends Laqueur describes have parallels in other advanced industrial societies. For anyone worried about a specifically "German problem"—as many Germans are—the picture he paints is basically reassuring. West Germany is a society as it is, it is decent, it is rather dull; in spite of a few recent setbacks, its economy is still in good shape; democracy has taken root as it never did during the Weimar Republic. "All things considered, there is now not only more freedom in Germany than ever before in her history, but also more common sense and moderation," he writes.

Yet the old immobility has not disappeared entirely. Laqueur describes a meeting where he had a chance to watch some of the leading members of the Greens political alliance in action. They seemed to him to be gifted people, arguing their case persuasively, but what struck him most was "their excitement and shyness; they seemed to be driven by some inner demons." Here as elsewhere he was moved to meditate on the perfectionism and relentlessness that have been such a feature of German history, the tendency to get carried away and look for extreme solutions.

The most obvious recent manifestations of this impulse have been on the fringes of youth culture and in intellectual life. Laqueur's two long chapters on "Young Germany" and on the intelligentsia are models of clear-headed diagnosis—all the more devastating, on the whole, for being soberly expressed. He discusses movies (there are some particularly enlightening comments on a prophetic film of the 1960s, "Tatort"), upheavals in the education system, the spread of Cold War revisionism and the progress of violent protest movements, from the days of Rudi Dutschke to the more recent "Spontis" and "Autonomous," loose-knit groups that have largely jettisoned organization and ideology. Without taking such developments lightly, he insists on the need to keep them in perspective, to see them for the limited affairs they are.

One is left wondering whether extremism and excess can really remain the monopoly of the more or less intellectual classes. In one of his most valuable chapters, Laqueur analyzes the new mood of patriotism in West Germany, and argues strongly against confusing it with the specter of a Nazi revival. As co-director of the Wiener Library, one of the world's foremost centers of Holocaust documentation, he is not the man to be complacent on such a subject, and the reasons he gives are compelling. Still, as he points out, West Germany is the land of the Pied Piper—and after all the arguments and statistics, a tremor of unease lingers on.

John Gross is on the staff of The New York Times.

Solution to Friday's Puzzle

LIMP	ISM	COME
AREAS	ACAP	OBEY
PATRI	MANASSITE	
AQUICKBROWN		
ZIPS	ASFREE	RAP
TIN	DEFAME	
AMENSEAT	ICON	
FOXJUMPEDOVER		
SANA	BALINESE	
SIESTA	NEA	
TRY	ASCOLI	NCAA
THELAZYDOGS		
BEFRIENDS	ATSEA	
AQUA	RTES	PETER
TONY	ORO	WASH

8/22/85

BRIDGE

By Alan Truscott

ON the diagramed deal East is discreetly passed when both his opponents took action. He felt sure that his partner's hand was worthless and that there was no future in entering the proceedings.

North-South began to go off the rails when North made a forward-going bid of two diamonds. In the face of a misfit, a simple rebid of two spades or a preference to two hearts was indicated. As it was, South should have been content to bid two spades. Instead he went haywire with a jump to three hearts, suggesting a six-card heart suit and extra values. He had neither of these,

and as a result played in the wrong suit at too high a level. East found his voice with a double, in spite of his poorly placed heart honors. When the spade ten was led to dummy's queen and his ace, he could not be sure about the location of the missing spade. He therefore returned the heart eight, and the declarer finessed the queen.

This was a slight misjudgment, and South went from bad to worse. He led the club king, throwing a diamond and allowing East to take the ace and lead the trump king. South could have saved a little by taking the ace and playing a third round of trumps, but he led a spade. West ruffed and

Both sides were vulnerable. The bidding:

North	1♠	2♦	3♥	4♣
South	1♠	2♦	3♥	4♣

West led the spade ten.

Wimbledon: Rain, Other Drips, Traditional

By John Feinstein

Washington Post Service

LONDON — All was calm in the House of Commons on Friday, the business of British government being conducted in a quiet manner.

Outside, one tour bus after another pulled up to the curb, spitting out camera-toting tourists. Several yards away, traffic had stopped. Billowing black smoke was mixing with the rain and, as it cleared slightly, one could see a small truck, its front end on fire.

Many tourists on both sides of the street stopped and began taking pictures even as fire trucks fought their way through the chaos. As one bobby tried to shout the spectators back, he suddenly found a camera in his face.

"They think this is part of the show or something," he said angrily. "Every bloody June it's the same thing."

The fire was put out. The tourists got their pictures. The rain continued. Big Ben read 11:42.

London. Summer. Tourists. Rain.

Martina Navratilova tried out some large glasses, but she will be the one getting long looks at Wimbledon this week. Especially after the publication of her new book.



As the women began their match, complete with chair umpire and ball boys, the 15,000 Centre Court seats were empty. The scoreboard kept score, the umpire called the points but no one was there—until, at 1-a, four reporters wandered in near the top of the stands.

At 2-a, a young security guard climbed to where the reporters were seated. "I'm terribly sorry," he said apologetically. "But this is a private game. Members only."

Of course, Tradition. Wimbledon. Strawberries and cream. Rain. Private game on Saturday.

Bulletin, as seen from an alley underneath the stands: At 6-6, it began to rain and the match was stopped. Not because the ladies were getting wet but because the court had to be kept dry.

Tradition. Whether at Royal Ascot or at Buckingham Palace or at the All England Club, one simply does not tinker with tradition. Tradition makes this the premier tennis tournament in the world. Yet, because this is Wimbledon, many of the amenities players take for granted elsewhere do not exist here.

Most notable is the problem of practice time. There are only 17 courts on the grounds, and Centre Court and Court 1 are never used for practice. A seeded player is granted—weather permitting—30 minutes to practice on an outside court. If two seeds practice together, they can get 60 minutes.

If, as has been the case this year, there is little sunshine in the two weeks leading up to the tournament, the courts almost always are covered and everyone must scramble to find practice courts.

"I've driven 1,700 miles since we got here" two weeks ago "just looking for places we can practice," said Ian Barclay, coach of sixth-seeded Pat Cash, a semifinalist last year. "I think we may have used every grass court in England."

Saturday morning, one of the British tabloids, over a front-page picture of McEnroe at Heathrow Airport, ran a headline that read: "Mac the Miserable."

Why was Mac deemed so miserable? "He refused," the caption read, "to even reveal when girlfriend Tatum O'Neal would be arriving in London."

For the women, the week leading up to the championships is not so difficult. Most play in a grass tournament at Eastbourne, about an hour outside London. There, practice courts are plentiful, the atmosphere country-like and relaxed.

"I love the week at Eastbourne," said Martina Navratilova, who Saturday won the tournament for the sixth time. "It's especially like it because every time I've won it, I've gone on" the five times, including the last three "to win Wimbledon. It's important to me."

This week may not be so easy for Navratilova. Undoubtedly, she will breeze through her matches as she always does the first week at Wimbledon. But with her autobiography having just hit the shops here, Navratilova will be questioned about the book, in which she talks about her bisexuality.

Another tennis book is coming out this week, co-authored by Chris Evert Lloyd and husband John. Much of it is about their six years of marriage. Including last year's much publicized, although temporary, separation.

They also were the subject of a huge piece in Sunday's London Times, "The Lloyds of Wimbledon," a much-ballyhooed "tell-all" about their lives on and off the tennis court.

SPORTS BRIEFS

Frost, Edwards Lead U.S. Golf Tournament

ATLANTA (UPI) — David Frost of South Africa shot a bogeyless 8-under-par 64 Saturday to tie Danny Edwards for the third-round lead in the \$500,000 Atlanta Golf Classic.

Edwards shot 68. He and Frost, who joined the U.S. tour for the first time this year after three years on the European circuit, both closed with birdies to stand at 202 after 54 holes. That gave them a two-stroke lead over two-time PGA champion Ray Floyd and second-round leader Steve Pate. Floyd shot 68, Pate 71.

Pate, with the two best rounds of his six-month pro career, held a one-stroke lead over Edwards on Friday by backing up an opening 67 with a 66. Last week's U.S. Open runner-up, Tze-Chung Chen of Taiwan, faded from the spotlight when he tied to 75 after an opening 68.

Ueberroth Says Pirates Cannot Be Moved

PITTSBURGH (AP) — The commissioner of major league baseball, Peter Ueberroth, said Friday he would veto any attempt to move the financially troubled Pittsburgh Pirates to another city and warned cities in search of major league franchises not to "raid other communities."

"I would not approve the sale if outside groups want to move" the Pirates, he said. "We're not going to use moving vans for baseball teams."

Pershing Square Sets Pacing Stakes Marks

NEW YORK (AP) — Pershing Square, a 3-year-old colt driven by Bill O'Donnell, set stakes and track records Saturday night at Roosevelt Raceway in winning the \$482,500 Messenger Stakes, the first leg of pacing's Triple Crown.

Pershing Square trailed Dragon's Lair, the 3-5 favorite driven by Michel LeClerc, before winning a furious stretch duel by a head. The winner covered the mile (1.6 kilometers) in 1:52 2/5.

For the Record

Barry McGuigan, the new featherweight champion, was officially notified Friday by the World Boxing Association that he must defend his title against top-ranked Benjamín Taylor by Oct. 8.

The Belgian Grand Prix, postponed June 2 because of a deteriorating track, has been rescheduled for Sept. 15, according to Bernie Ecclestone, president of the Formula One Constructors Association.

Five Bulgarian soccer players — Flamen Nikolov, Borislav Mikhailov, Emil Veliev and Emil Spasov of Levski Spartak, and CSKA's Christo Stoiichkov — have been "excluded from soccer for life," the Yugoslav news agency, Tanjug, reported. Their teams were disbanded last week after a violent cup final.

Marco Lancia, 60, an Italian doctor, says he will bicycle the 1,550 miles to Liverpool carrying a message of friendship from Milan's mayor to the mayor of the English city whose soccer fans were blamed for the Brussels riot last month. (AP)

Quotable

Billy Gardner, fired as manager of the Minnesota Twins, when asked if he had any advice for his replacement: "None. He probably operates different than me. Besides, if they wanted my advice they wouldn't have fired me."

SCOREBOARD

Baseball	
Red Sox	5-0
Yankees	4-1
Phillies	3-2
Braves	2-1
Mariners	1-0
Angels	0-1
Giants	0-2
Padres	0-3
Indians	0-4
Twins	0-5
White Sox	0-6
Blue Jays	0-7
Marlins	0-8
Rockies	0-9
Montreal	0-10
Hockey	
Canadiens	3-2
Penguins	2-1
Stars	1-0
Flames	0-1
Oilers	0-2
Blues	0-3
Red Wings	0-4
Black Hawks	0-5
Devils	0-6
Sharks	0-7
Wings	0-8
Lightning	0-9
Canucks	0-10
Soccer	
Bayern	3-0
Inter Milan	2-1
Liverpool	1-0
Manchester United	0-1
Real Madrid	0-2
Barcelona	0-3
Bayern	0-4
Inter Milan	0-5
Liverpool	0-6
Manchester United	0-7
Real Madrid	0-8
Barcelona	0-9
Bayern	0-10
Inter Milan	0-11
Liverpool	0-12
Manchester United	0-13
Real Madrid	0-14
Barcelona	0-15
Bayern	0-16
Inter Milan	0-17
Liverpool	0-18
Manchester United	0-19
Real Madrid	0-20
Barcelona	0-21
Bayern	0-22
Inter Milan	0-23
Liverpool	0-24
Manchester United	0-25
Real Madrid	0-26
Barcelona	0-27
Bayern	0-28
Inter Milan	0-29
Liverpool	0-30
Manchester United	0-31
Real Madrid	0-32
Barcelona	0-33
Bayern	0-34
Inter Milan	0-35
Liverpool	0-36
Manchester United	0-37
Real Madrid	0-38
Barcelona	0-39
Bayern	0-40
Inter Milan	0-41
Liverpool	0-42
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Real Madrid	0-56
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Inter Milan	0-59
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Real Madrid	0-62
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Bayern	0-64
Inter Milan	0-65
Liverpool	0-66
Manchester United	0-67
Real Madrid	0-68
Barcelona	0-69
Bayern	0-70
Inter Milan	0-71
Liverpool	0-72
Manchester United	0-73
Real Madrid	0-74
Barcelona	0-75
Bayern	0-76
Inter Milan	0-77
Liverpool	0-78
Manchester United	0-79
Real Madrid	0-80
Barcelona	0-81
Bayern	0-82
Inter Milan	0-83
Liverpool	0-84
Manchester United	0-85
Real Madrid	0-86
Barcelona	0-87
Bayern	0-88
Inter Milan	0-89
Liverpool	0-90
Manchester United	0-91
Real Madrid	0-92
Barcelona	0-93
Bayern	0-94
Inter Milan	0-95
Liverpool	0-96
Manchester United	0-97
Real Madrid	0-98
Barcelona	0-99
Bayern	0-100

SPORTS

NCAA Approves Crackdown On College Rules Violators

By Gordon S. White Jr.
New York Times Service

NEW ORLEANS — The National Collegiate Athletic Association has overwhelmingly approved the strongest sanctions it has ever enacted against colleges and coaches who violate rules governing recruiting, amateurism, academic standards and ethics.

The sanctions, approved Friday by NCAA member institutions at a special convention, will take effect Sept. 1. They include suspension for an athletic team for as long as two seasons if it is found guilty of major infractions twice in a five-year period.

Facing what some convention delegates have described as an "integrity crisis" in collegiate athletics programs, the representatives also agreed to suspend or dismiss any coach involved in major violations and to suspend the college's right to recruit athletes in the sport. A repeat offender would be prohibited from awarding new athletic scholarships in the sport for two years.

The special meeting — only the fifth the NCAA has held since its founding in 1906 — was called by the association's 44-member Presidents' Commission, which was concerned about a series of athletic scandals in recent years. The commission, made up of university and college presidents and chancellors, submitted 12 proposals at the

meeting. Each was approved almost unanimously by the 435 schools represented at the convention.

"I do not believe I can overstate the level of concern that presidents and chancellors feel regarding the integrity crisis in college athletics," Dr. John W. Ryan, president of Indiana University and chairman of the commission, told the gathering. He said it was the purpose of both the convention and the commission "to do as much as legislation can do to eliminate corruption in intercollegiate athletics."

There are 797 member institutions in the NCAA. All 284 Division I members — those schools with major athletic programs — were present, aware that the main thrust of the legislation was directed at their programs.

Among the delegates were a record 198 college presidents and chancellors, who dominated the session. At the regular annual NCAA conventions athletic directors and faculty representatives are more in evidence and often control the decisions on the floor.

Since 1980, the NCAA has placed at least 20 teams on probation. Violations in recent years have occurred at such schools as Southern California, Southern Methodist, Florida, Arizona State and UCLA.

Some of the colleges cited gave

illegal inducements to athletes so they would attend that school. The inducements often included cash, automobiles, jobs for friends of athletes, apartments and other items of material value.

Many programs were also cited for violations of NCAA academic regulations, such as changing classroom transcripts to make an athlete eligible to compete.

Often athletes at cited schools had been assigned to summer school makeup courses in order to make them eligible. The athletes never attended those courses but were given passing grades anyway.

Southern California, for instance, admitted more than 300 athletes during a 10-year period who did not meet minimum academic standards for admission.

In a more recent scandal, members of the Tulane University basketball team were indicted on charges of shaving points. It has been charged that drugs and cash were used as payment to them. Ryan said the Presidents' Commission will soon address such problems as drugs in collegiate athletics.

Among the actions taken by the convention were the following:

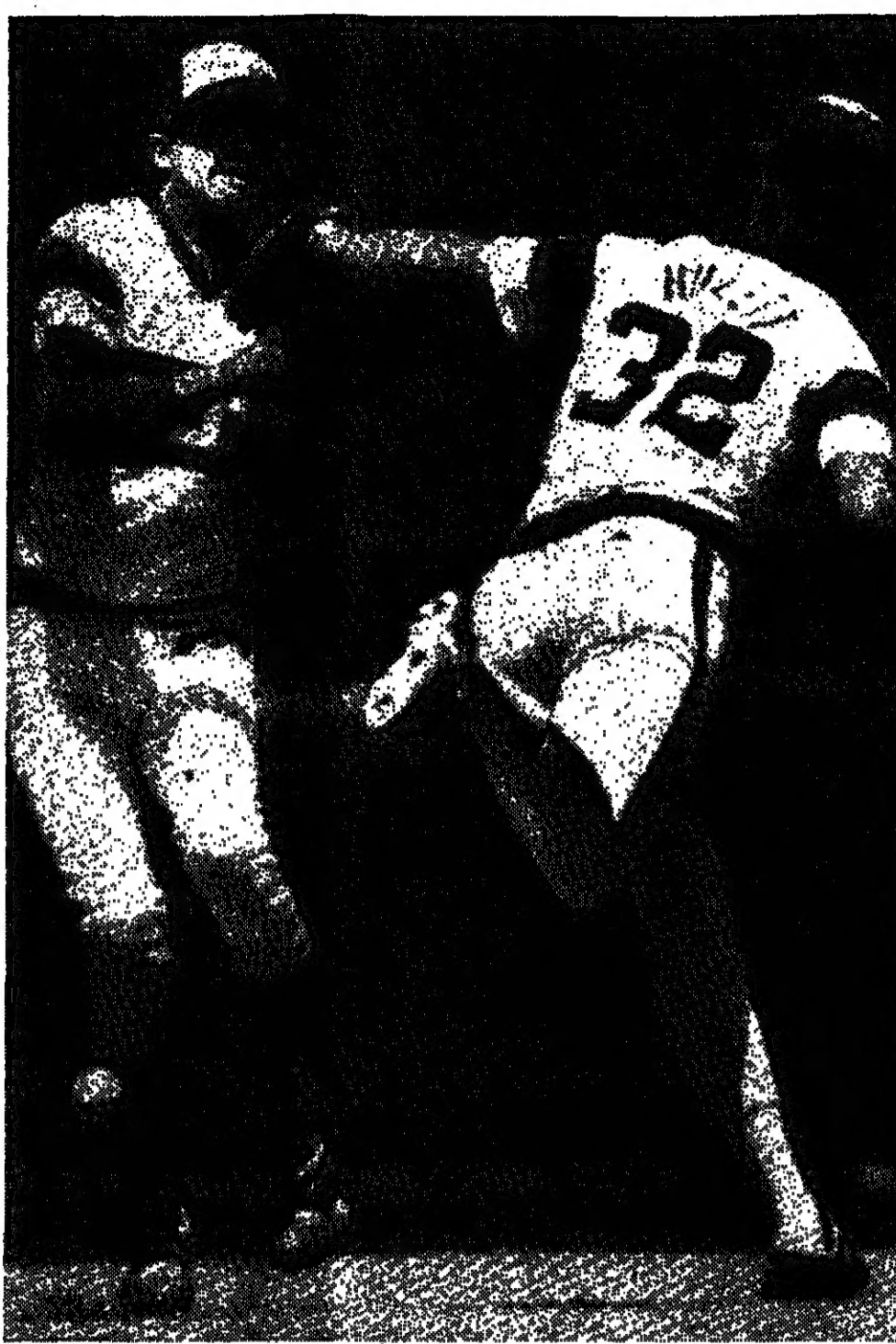
- It ruled that the first major infraction in a five-year period would be penalized by a minimum two-year probation in the sport with a one-year moratorium on television games and postseason competition. Coaches and other staff members will be subject to suspension without pay for one year and may not recruit for a year.
- It adopted a resolution calling for sanctions to be created for athletes who knowingly violate NCAA rules by such actions as accepting material benefits to attend a certain institution. This is the first attempt to include an athlete directly in the penalties handed out by the NCAA. It is expected that such a proposal will be offered at the NCAA's regular annual convention in January.

- It required that all Division I colleges submit an annual report to the NCAA showing that existing freshmen athletes comply with academic standards for entrance and showing the rate of graduation of senior athletes.

- It made it mandatory that an independent audit be conducted of a college's athletic department finances, addressing, in particular, the use of donations from booster or fan clubs. The college president or chancellor will be specifically responsible for these finances.

The provisions of the repeat-offender rule are retroactive. If a school's team sport had been cited for a violation in September 1983, for example, its program will be suspended for at least a year if it commits another major infraction by September 1988.

In the past, there were no specific penalties set by the NCAA for violations. The NCAA Committee on Infractions decided the degree of severity of penalties. It could put a school on probation for one, two or three years or longer. It could forbid television appearances, bowl games, and could wipe out victories. Wichita State, Southern Methodist, Oklahoma and other institutions have been put on probation in football or other sports twice within a five-year period, but their programs were not suspended.



Tim Hallett and Chicago teammate Ozzie Guillen nearly collided going for Bob Boone's pop-up, but only thing that hit was ball and ground during Saturday's game against Angels.

Cards Hand Cubs 11th Straight Loss, Move Into 1st Place

Compiled by Our Staff From Dispatches

ST. LOUIS — Curt Ford, in his first major-league at bat, drove in the winning run in the 10th inning Saturday night to give the St. Louis Cardinals a 2-1 victory over Chicago, handing the Cubs their 11th straight loss.

The Cubs, who have the longest losing streak in the major leagues this season, managed only three hits. They have lost all five games against the Cardinals this season.

The Cardinals' seventh victory in eight games put them in first place in the National League East, one-half game ahead of Montreal. The Expos defeated the Mets, 5-4, in a 10-inning thriller in New York.

Ozzie Smith led off the home 10th with a single to center and took second on a wild pitch by the Cubs' reliever, Lee Smith. After Cubs pitcher Steve Carlton struck out, Ford singled to score Smith.

"I told him in the eighth inning, 'You're going to win the game for us,'" said the Cardinals' manager, Whitey Herzog.

Ford was called up from Louisville, Kentucky, of the American Association on Monday to replace Terry Pendleton, who was placed on the 15-day disabled list with a pulled hamstring.

"No, I wasn't nervous," Ford said. "I might be nervous twice the next time. I like to hit in situations like that... every time I walk between the lines, I want to be a hero, the big shooter."

Willie McGee of the Cardinals had two hits in four at-bats, the sixth game in a row he has had two or more hits.

In New York, second baseman Wally Backman's error on pinch-hitter Terry Francona's ground ball allowed Dan Driessen to score from third base as the Expos ended the Mets' five-game winning streak.

Driessen opened the 10th with a double and advanced to third on Hubie Brooks' ground out to first. After Tim Wallach was walked in-

SATURDAY BASEBALL

tionally, Francona hit a double-play ball to Backman, who bobbled it and allowed Driessen to score.

The Mets had taken a 3-2 lead in the seventh on Rusty Staub's pinch-hit three-run homer, his 94th as a pinch hitter putting him 12th on the all-time major league list. The Mets scored their fourth run that inning on a walk to Keith Hernandez and singles by Gary Carter and Danny Heep.

But the Expos got a run in the eighth, then tied the score in the ninth on Steve Nicosia's two-run double after Wallach opened with a double and pinch-hitter Skeeter Barnes singled.

Reds 4, Braves 3: In Cincinnati, Dave Parker's third hit of the game with one out in the ninth, scored Eddie Milner from third and beat Atlanta.

Padres 2, Giants 1: Steve Garvey homered with one on the fourth and Eric Show and Tim Lincecum held San Francisco to two hits before 53,375, a San Diego record for a regular-season day game.

Phillies 5, Pirates 2: Juan Samuel hit his sixth homer, with two on and one out in the bottom of the ninth, to lift Philadelphia past Pittsburgh.

Dodgers 6, Astros 3: In Los Angeles, Ken Landreaux and Mike Scioscia each drove in two runs against Houston and Fernando Valenzuela struck out a season-high 14. New York's Dwight Gooden and Pittsburgh's Jose DelLeon have also fanned 14 this year.

Red Sox 5, Blue Jays 3: In the American League, Bill Buckner singled home two runs in the eighth inning in Toronto as Boston rallied in a game delayed more than three hours by rain. Toronto's manager, Bobby Cox, was ejected during the fifth-inning rain delay for arguing that the game should be halted. The Blue Jays led 3-2 at the time.

Yankees 4, Tigers 0: Ron Guidry checked Detroit on four hits and Don Baylor hit a two-run homer for visiting New York. Guidry pitched his second straight shutout and did not allow Detroit more than one hit in any inning.

Angels 6, White Sox 3: California's Juan Beniquez tripled and hit a two-run homer and Mike Brown added a two-run homer in Chicago.

A's 6, Indians 4: Carney Lansford's 10th homer, a two-run shot in the 11th, beat Cleveland in Oakland, California.

Mariners 2, Royals 1: Bret Saberhagen pitched a perfect game for seven innings in Kansas City, Missouri, but balked home Seattle's Gorman Thomas with the go-ahead run in the eighth.

Twins 3, Rangers 2: In Minneapolis, Minnesota, Gary Gaetti singled in one run and Kent Hrbek doubled in two in the sixth to beat Texas.

Orioles 3, Brewers 2: Cal Ripken singled home Lee Lacy with the winning run in the sixth as Baltimore won in Milwaukee. (UPI, AP)

Carlton on Disabled List
For the first time in his 20-year major-league career, Philadelphia Phillies left-hander Steve Carlton was placed on the disabled list Saturday because of an injury to his pitching shoulder. The Associated Press reported.

Officials of the National League team said the four-time Cy Young Award winner was put on the 21-day disabled list because of a strain of the left rotator cuff.

Despite a 2.43 ERA in 77 2-3 innings, Carlton, 40, is 1-7 this season after starting 13 games. He has allowed 68 hits.

Carlton has not been throwing as hard as he has in previous years, and he had some trouble with the left shoulder in spring training.

Twins Fire Gardner, Hire Miller to Manage

Compiled by Our Staff From Dispatches

MINNEAPOLIS — The Minnesota Twins, struggling to stay out of the cellar in the American League West, fired their manager, Billy Gardner, Friday night and replaced him with the Baltimore Orioles' pitching coach, Ray Miller. The Twins responded by winning, 3-2, against the Texas Rangers.

Miller, 40, had never managed in the major leagues, but helped the Orioles produce five 20-game winners and two Cy Young Award winners in his six years as their pitching coach.

Until their victory Friday night, the pitching-poor Twins had lost 19 of 25 games.

Gardner, 51, became the Twins' manager on May 22, 1981, after a 20-year playing career and 12 years as a manager in the minor leagues. This season, the Twins lost nine straight in May, then won 10 straight before losing 10 in a row. During the winning streak, the Twins led the American League in

FRIDAY BASEBALL

bating. But the team earned-run average has ballooned to the worst in the league.

Miller has been with the Baltimore organization since 1971, following a career as a minor league pitcher.

Miller was replaced in Baltimore by Ken Rowe, 41, the club's minor-league pitching instructor since 1980.

In Miller's first major-league game as manager, the Twins' Mark Salas hit a two-run single with two out in the bottom of the ninth to beat Texas.

The Rangers' Charlie Hough had carried a six-hit shutout into the inning, but walked leadoff batter Tom Seaver. After Roy Smalley Jr. bled, Brannan was forced to third on Gary Gaetti's sacrifice bunt attempt.

Tim Lincecum walked to load the bases, Smalley scored on pinch-hit-

ter Randy Bush's ground out to make it 2-1 and Salas hit a 1-0 pinch to right to score Gaetti and Teufel.

Tigers 6, Yankees 4: In Detroit, Lou Whitaker hit his third home run in as many games during a four-run sixth inning and Kirk Gibson clouted a mammoth homer in the seventh against New York. Rickey Henderson had two homers for the Yankees.

Blue Jays 7, Red Sox 2: Jimmy Key pitched a five-hitter in Toronto and Lloyd Moseby had three hits and two RBIs to help beat Boston. Key recorded his fifth consecutive triumph and second complete game in lowering his ERA to 2.30.

Angels 5, White Sox 2: In Chicago, Mike Brown hit a two-run triple and Juan Beniquez collected four consecutive singles to lead the Angels into first place in the AL West.

Brewers 13, Orioles 10: Cecil Cooper drove in four runs with three hits and the Brewers sent 14 batters to the plate in a nine-run sixth inning in Milwaukee. Baltimore's Dennis Eckersley in less than a week.

Padres 6, Giants 1: Kevin McReynolds had three hits and two RBIs in San Diego and Jerry Royster hit a grand slam against San Francisco.

Dodgers 7, Astros 2: In Los Angeles, Pedro Guerrero got three hits, including his 15th home run this year, to help defeat Houston.

Phillies 4, Pirates 3: Juan Samuel's one-out double in the bottom of the 16th scored Derral Thomas from second base to beat Pittsburgh in Philadelphia. (UPI, AP)

Until his NCAA championship, Bile's career had been a strange and not always successful one. One concern for Cook has been that Bile is 6 feet 2 (1.88 meters) and 150 pounds (68 kilograms). Bile puts in considerably less time running than do most of his counterparts because he has been accident-prone.

At the NCAA meet last year, he was warming for the final when he stepped on a switch box and broke a bone in his foot. He missed most of the indoor season this year after he ruptured a vertebra lifting a paint bucket in a theater class. He thought it was empty, but it was a full, 50-gallon (52-liter) container.

"Theater, right?" Cook said. "We thought it was a nice, safe class."

The most disappointing incident of his career, however, came during the Los Angeles Olympics. Bile ran well in the semifinal heat of the 1,500, only to discover afterward he had been disqualified. A Brazilian had fallen during the race, and Bile was accused of bumping him.

"The guy who fell down was running behind me," he said. "How do you push someone when they are behind you? I just know that I made the final, and it was tragic."

The incident makes the 1988 Olympics all the more inviting. Cook contends he could be the favorite.

"I believe that with patience and a little luck, Bile is going to be one of the great milers in the world," he said. "I knew all the time I had an athlete. It's just been a question of getting him to the starting line."

Somalian Finds Winning Races Easiest Thing in U.S.

By Sally Jenkins
Washington Post Service

WASHINGTON — Abdi Bile is no longer puzzled by the strange Americans with their taste for beer and the loathsome cheese and tomato stuff called pizza. Nor is he surprised when they call him by the wrong name, Abdi Abdi, which is often.

He settled the matter of his name one day when he walked over to George Mason University's track coach, John Cook, smiled and demonstrated his excellent English. "Calling me that," Cook recalled him saying, "is like me calling you Cook Cook."

The correct manner of address, should you happen to encounter the runner in the Somali capital of Mogadishu, or the more likely setting of the Seoul Olympics in 1988, is Abdi Bile — the last name pronounced "Bili" in Somalia.

Recently, he became the NCAA champion in the 1,500 meters.

Bile, a sophomore who carried the Somalia flag in the Los Angeles Olympics last summer, was the first foreign track runner to be recruited by George Mason, which he chose because, among other reasons, it was near Washington and thus close to the Somali embassy.

Cook recruited him sight unseen on the advice of a Somali runner at Fairleigh Dickinson University in Rutherford, New Jersey.

If Bile had some trouble adjust-



Abdi Bile Abdi

ing to his new surroundings, Cook has been equally confounded by his star athlete at times. Prior to his 1,500 heat in Austin, Bile startled his coach by announcing that he was required by his Muslim faith to fast and could eat only between sunset and sunrise.

They finally compromised. Bile ate a meal and won the 1,500. The agreement was that he would return to his fast after the champion-

ships and forgo competition in any more races until the summer.

"You don't go crazy with Abdi," Cook said. "If I go to war with him, I'd lose in the long run because I'd lose his trust. I said, 'Hey, let's just go through the NCAA's. Now, everybody wants him to run. I want him to run, too. It's against my nature not to. But I tell people who want him that he's not running now, he's fasting.'"

Bile has not always been comfortable in the United States, and frankly misses Somalia, where he plans to return and go into his family's import-export business after earning a business degree. The worst time was when he was a recent arrival and trying to learn the confusing business of being a college freshman in the United States.

"At first, I had culture shock," he said. "The climate, the food, all that stuff. Everything was new. I was trying to learn the way of living in this country."

There are two other Somalian runners at George Mason now — freshmen Ibrahim Okash and Ahmed Ismail — both largely recruited by Bile. Prior to their arrival, however, Cook was virtually Bile's only close acquaintance. Serious about his faith, Bile was shocked by some of the goings-on in his dorm, and took refuge with his coach.

"There were a lot of things he saw that hurt him — left's like the drugs, the alcohol, the sex,"

he said. "The climate, the food, all that stuff. Everything was new. I was trying to learn the way of living in this country."

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SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

FRIDAY'S RESULTS	
NATIONAL LEAGUE	
Atlanta	000 000 000-0 0 0
Cardinals	001 000 000-1 0 0
Expos	000 000 000-0 0 0
Phillies	000 000 000-0 0 0
Pirates	000 000 000-0 0 0
Reds	000 000 000-0 0 0
Royals	000 000 000-0 0 0
Senators	000 000 000-0 0 0
Twins	000 000 000-0 0 0
Yankees	000 000 000-0 0 0

FRIDAY'S RESULTS	
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Rangers	000 000 000-0 0 0
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White Sox	000 000 000-0 0 0

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White Sox	000 000 000-0 0 0

He Might Try Changing the Boat's Name

Los Angeles Times Service

LONDON — Maybe Bob Macnamara was not destined to cross the Atlantic. The intrepid British sailor made his fourth try last week and wound up in retreat.

Macnamara, 65, an unemployed stone cleaner, set out from Campbelltown, Scotland, in a five-foot (1.5-meter) craft named Marmaduke Jinks IV. His outboard engine failed almost immediately, and he hoisted sail. But his boat started drifting backward, and he went to sleep.

On waking, he had no idea where he was and, having no distress flares, he began flashing a hand torch. This was spotted, and he was rescued by the Campbelltown coast guard.

He had traveled four miles — in the wrong direction.

This was Macnamara's first attempt since last year, when he set out from Land's End, England, in a barrel. When he boarded the barrel, it cap-

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